MEC

MONGOLIA ENERGY CORPORATION

蒙 古 能 源 有 限 公 司

Incorporated in Bermuda with limited liability

Stock Code: 276

Annual Report 2010

ENERGY RESOURCES DEVELOPER

We are an energy and resources developer. Our vision is to achieve global recognition in the energy and resources sector.

Our strategy, as an energy and resources developer, is to acquire concession areas, and with an international team of experts, coordinate all aspects of mine development and production, including exploration, mine design and extraction to international standards for international sales of our products. Our projects will be implemented in a sustainable manner.

We currently own approximately 330,000 hectares of concession areas in Western Mongolia at Khushuut, Darvi, Gants Mod, Olon Bulag, Govi-Altai and Banyan-Ulgii for coal, ferrous and non-ferrous metals resources. We also have an interest in an oil and gas project in Southern Mongolia. In Xinjiang, PRC, we have an investment in a resources corporation authorized among others to explore in coal, copper and iron resources. These are the current opportunities of our Company.

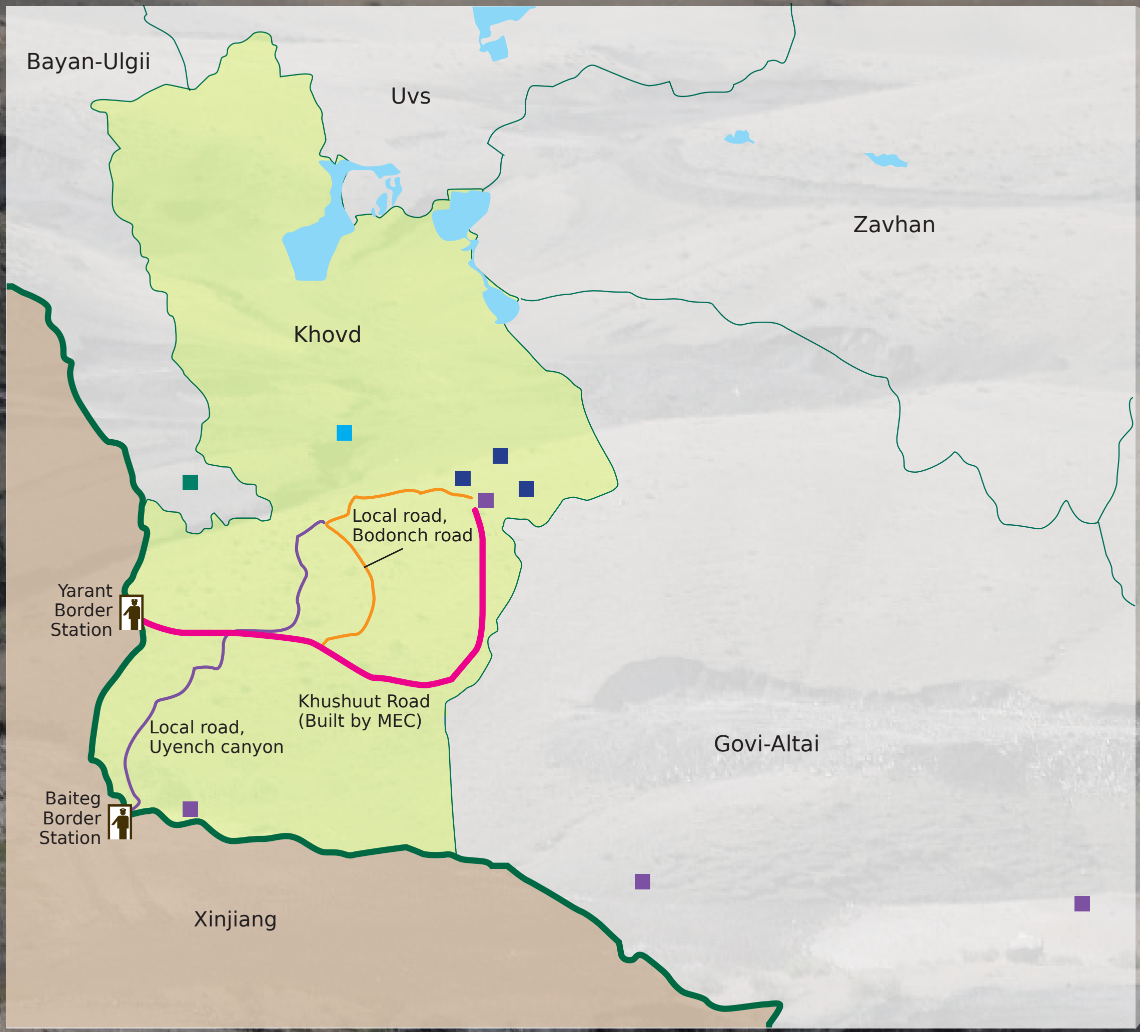
Over the past few years, we were focused upon our concessions in Western Mongolia. The most advance of our projects is the development of the Khushuut Coking Coal Mine. This is within 600 hectares of our 330,000 hectares of concession areas in Western Mongolia. We have demonstrated approximately 149 million tonnes of JORC in-place coal resources. The coal resources are of a premium coking coal quality with low sulfur, low to mid volatile matters and a high caking index. These characteristics make our coal resources a premium blending material for the production of coke to be used by steel manufacturers wishing to manufacture premium steel products, including rolled steel and deformed steel products, for infrastructure projects in the PRC. We have built a roadway known as the "Khushuut Road" from our project mine site in Khushuut to the border of Xinjiang, PRC to facilitate the transportation of our coal products upon commercial production. The Khushuut Road will also provide future primary access to other concession areas

We will continue exploration in the vicinity of Khushuut and conduct reconnaissance over the remaining 330,000 hectares of concession areas for other resources such as gold and copper prospects. We shall also develop our other interests and investments to maximize value to our shareholders.

Caution Regarding Forward-Looking Statements

This Annual Report contains certain forward-looking statements and opinions with respect to the operations and businesses of MEC. These forward-looking statements and opinions relate to, among other things, our objectives, goals, strategies, intentions, plans, beliefs, expectations and estimates and are generally indicated by the use of forward-looking terminology such as believe, expect, anticipate, estimate, plan, project, target, may, will or other results of actions that may or are expected to occur in the future. You should not place undue reliance on these forward-looking statements and opinions, which apply only as of the date of this Annual Report. These forward-looking statements are based on MEC's own information and on information from other sources which MEC believes to be reliable. Our actual results may be materially less favorable than those expressed or implied by these forward looking statements and opinions which could affect the market price of our shares. You should also read the risk factors set out under our circulars and announcements for each of the transactions, which are deemed incorporated and form part of this document and as qualification to the statements relating to the relevant subject matters. Neither MEC nor its directors and employees assume any liability in the event that any forward-looking statements or opinions does not materialize or turns out to be incorrect. Subject to the requirements of the Hong Kong Listing Rules, MEC does not undertake to update any forward-looking statements or opinions contained in this Annual Report.

MEC's Western Mongolia Concessions



Map shown above is not to scale

- 34,000 hectares of coal concession
- 32,000 hectares of coal, ferrous and non-ferrous metals concession
- 263,008 hectares of coal, ferrous and non-ferrous metals concession
- 2,986 hectares of ferrous metals concession
- Border station
- Local road, Uyench canyon
- Local road, Bodonch road
- Khushuut Road (Built by MEC)
- Country boundary
- Province boundary
- Lake

Mongolia is an independent country located in East and Central Asia, bordering Russia to the north and China to the south, east and west. In terms of volume and variety of mineral resources, Mongolia ranks among the richest countries, possessing prospected deposits of ferrous, non-ferrous, rare, precious and light metals as well as rare earth elements. There are also numerous deposits of non-metallic minerals and fossil fuels. The most important minerals in terms of economic value are copper, molybdenum, fluorite, coal, gold and rare elements. (Source: government of Mongolia)

Since 2007, MEC entered into a series of acquisitions for different mineral and energy resources. Our combined concession areas for coal, ferrous and non-ferrous metal resources at Khushuut, Darvi, Gants Mod, Olon Bulag, Govi-Altai, Bayan-Ulgii, western Mongolia have been over 330,000 hectares.

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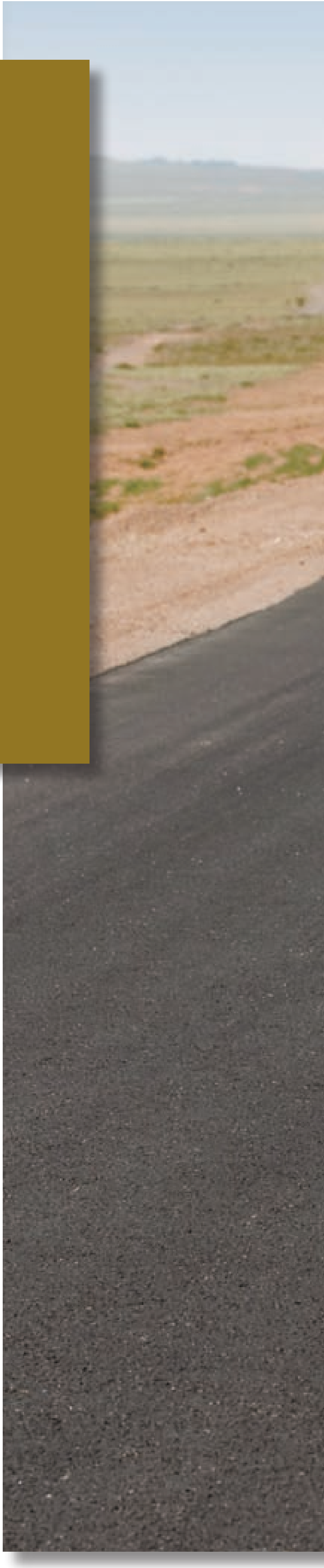
MATERIALIZE THE OPPORTUNITIES

Following years of careful planning backed by hard work and detailed exploration, our Khushuut Coking Coal Project has made steady steps forward and commercial production is now on the horizon. Ahead of this significant development, we have constructed an essential roadway linking Khushuut with the border crossing into Xinjiang, PRC, our key market. In addition, we have selected Leighton LLC to implement mining operations and secured our anchor customer. We will continue to take all steps necessary to bring this project to fruition as it underscores MEC's commitment to achieving long-term growth and maximizing returns to our shareholders.


CAT
CATERPILLAR

MEC, committed to being a good corporate citizen, is fully conscious of its environmental and social responsibilities. In order to grow and prosper with the community, we will continue to direct significant effort toward the sustainable development of Mongolia, in particular, Khovd, a western province where we have established our core operations. In addition to building educational facilities and improving living standards for the local community, MEC supports green initiatives for the betterment of society. We are also involved in a number of activities, such as offering support to charitable organizations in Hong Kong and China on an ongoing basis.

ENRICH THE COMMUNITY



CULTIVATE THE FUTURE

The future is how you make it and at MEC that future entails capitalizing on the full potential of our quality assets to derive long-term sustainable income, in turn providing impetus to the development of existing projects as well as those to come. We will continue to build on this trust by making further investments in Mongolia's younger generations, training local talents such that they have a hands-on role in shaping their country, enhancing their own lives and playing an important part in our future. Aiding our cause will be the local community and government whom we have earned their trust, and with their cooperation MEC will unlock vast opportunities ahead.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Our Projects

Coal & minerals

Khushuut & Darvi, Western Mongolia

34,000 hectares of concessions. At Khushuut, explored 600 hectares and demonstrated approximately 149.2 million tonnes of JORC in-place coal resources, predominantly premium quality coking coal. The Khushuut Coking Coal Mine is scheduled for commercial production in 2010 and exploring vicinity. Processing exploration of other prospect areas.

Gants Mod, Western Mongolia

32,000 hectares of coal, ferrous and non-ferrous metals concessions. Developing exploration plan.

Olon Bulag and Govi-Altai, Western Mongolia

263,008 hectares of coal, ferrous and non-ferrous metals concessions. Processing exploration of prospect areas.

Xinjiang, PRC

19% investment in Xinjiang, PRC including a Chinese corporation with business scope among others, to explore coal, copper and iron resources in Xinjiang and elsewhere in the PRC.

Iron & minerals

Banyan-Ulgii, Western Mongolia

2,986 hectares of ferrous metals concession. An independent technical adviser is assessing the technical and economic viability of this project.

Oil & gas

Southern Mongolia

Over 1.18 million hectares of oil and gas project over Ergel XII Petroleum Block at production contract ratification stage

Chairman's Statement

A journey of a thousand miles begins with a single step

Lao-tze

Lo Lin Shing, Simon
Chairman

Dear Shareholders,

It has been over three years since we first acquired our concession areas in western Mongolia and the rebranding of our company into Mongolia Energy Corporation or "MEC". Our vision as well as our mission are to achieve global brand name recognition as an energy and resources developer. Throughout this period, our commitment and our efforts to achieve our vision and mission remain on track. The aim is to maximize the return to our stakeholders though an efficient use of our assets and funds.

As set out under our previous Annual Reports, we are developing our initial mining operations at Khushuut, western Mongolia. The Khushuut Coking Coal Mine includes approximately 149 million tonnes of JORC in-place coal resources which are substantially premium quality coking coal. This project is within a 600 hectares area which represents a small portion of the concession areas that we own in western Mongolia. I am glad to report to you that following the independent verification of the feasibility of our JORC resources by John T. Boyd Company under their Independent Technical Review (the "**ITR**"), we have obtained relevant regulatory approvals to mine the Khushuut coking coal. We have commenced our initial mining.

The coal from our mining operations will initially be supplied to Baosteel Bayi as anchor customer. Baosteel Bayi is a member of the Baosteel Group and the Baosteel Group is a leading steel producer in China. To assist in operations of the mine, we are pleased to have entered a long term mining contract with Leighton LLC. The Leighton Group is the largest international contract miner. We will work with Leighton to maximize production of our premium coking coal product.

A critical issue for any mining operations in Mongolia is transport. As set out in pervious management reporting, we have built the 310 km Khushuut Road foundation, which enables us to supply coking coal from Khushuut and resources from our future projects in Western Mongolia to China. This Khushuut Road was built and financed by MEC. Also, the border which MEC will cross between Mongolia and Xinjiang, China has been designated by the Mongolian authorities as a permanent border.

The ITR sets out that the footprint of our Khushuut Coking Coal Mine could be up to an annual production rate of 8 million tonnes. Our market study report conducted by the Fenwei Group, consistent with what we observe at the Xinjiang market, shows that there is sustained demand for our premium blend of Khushuut coking coal with low-mid volatile matters. I believe the Khushuut Coking Coal Project, along with all the supporting services and related local businesses, will help contribute to the development of Western Mongolia and the continued modernizing and industrializing of western China, especially the Xinjiang areas.

During the year, we have ceased our non-core private jet charter business. We disposed of our sole private jet and cancelled the purchase of another aircraft. The resources will be reinvested into our energy and resources business. This is a clear message that our focus, at MEC, is on our business as an energy and resources developer.

As Chairman, I have every confidence with the direction MEC is pursuing under its strategy as an energy and resources developer. Recently, as further support for MEC, I have entered into a subscription agreement with MEC subscribing for HK$300 million of its convertible note. The transaction is in the process of being approved. With completion of the funding along with commencement of mining operations, we can allocate more resources to our other projects, relating to further coal, gold and copper prospects which we are exploring. MEC will continue to explore these other resource areas and develop new projects using the Khushuut Coking Coal Project as a business model for future projects.

I am also pleased to inform you that MEC, as a caring corporate citizen, has commenced its sustainability program. We would like to share our efforts with you under the Sustainability section of this Annual Report. MEC has a responsibility to all of our stakeholders, which include investors, partners, and employees, to remain dedicated to “People, Planet, Profit” (the 3P’s) throughout our operations. We have defined our Sustainability Values as Transparency, Opportunity, Community, Action, Responsibility, and Education. These values make up the “acronym” of “TO CARE”. From these values, we have developed our sustainability vision and mission as a guide for our long-term operation and development strategy. We take our commitment to sustainability seriously and ask for your patience and collaboration as we begin our endeavors.

The Khushuut Coking Coal Project is our initial project in Western Mongolia. We have overcome many difficulties over the past years to bring this project into mining operations. In the years to come, MEC will continue its hard work to grow and develop as an energy and resource developer to maximize the long term value to all our stakeholders. However, I cannot help but admit that now is the most exultant moment, not only for myself, but all of us at MEC, with the commencement of mining operations, which we hope you share.

I will like to express my gratitude to you all, our colleagues and staff at MEC, and the people where we do business with. I look forward to your continued support.

Lo Lin Shing, Simon
Chairman

July 16, 2010

CEO's Annual Review

It has been an extremely busy year for the management and staff of MEC and affiliated companies. The primary objective has been the ongoing exploration and development of the Khushuut Coking Coal Project. Moreover, other exploration programs are being initiated for creating value for MEC's stakeholders.

The summer of 2009 consisted of continued exploration of the Khushuut coal deposit to provide better definition of the deposit and to verify previous results.

With the additional exploration results and verification, we proceeded with work required to bring the mine into production:

November 2009

Leighton LLC ("**Leighton**"), a member of the Leighton Group was selected as MEC's contract miner for the Khushuut Coking Coal Mining Project. Leighton Group is the world's largest mining contractor. MoEnCo LLC ("**MoEnCo**") and Leighton signed three agreements:

1) Consultancy Agreement – to develop a mine plan on which to base a Coal Mining Agreement;

2) Mining Services Agreement – to begin initial development of the mining area and required support facilities. This work began in 2009; and

3) Memorandum of Agreement – to provide the basic term sheet for the Coal Mining Agreement. Once the work under the consultancy agreement was completed, MoEnCo and Leighton finalized negotiations and signed the Coal Mining Agreement on June 2, 2010.

January 2010

MEC finalized negotiations with Baosteel Group Xinjiang Bayi Iron & Steel Co. Ltd ("**Baosteel Bayi**") for a Long Term Coal Supply Agreement. The agreement provides initial annual coal demand quantities for MEC between years 2010 and 2020. This is subject to MoEnCo's guaranteed minimum supply of (i) between 600,000 to 1,000,000 tonnes of coking coal between August 2010 to December 2011; and (ii) 1,000,000 tonnes per annum thereafter. Baosteel Bayi recited that it was willing to purchase any further accelerated and increased production of Khushuut coking coal, as needed. Thus, as a minimum the agreement relates to between 9,600,000 to 10,000,000 tonnes of Khushuut coking coal.

March 2010

MoEnCo signed an engineering design services contract with China Coal Shenyang Design Institute for the engineering and design of initial coal processing equipment known as a Rotary Breaker for the Khushuut Coking Coal Project. This equipment will provide MEC the ability to upgrade to screened coal produced at the mine prior to shipment to the Chinese market.

April 2010

The government of Mongolia reclassified the Yarant Border crossing as a permanent crossing. This assists to open up the border to meet border crossing requirements.

MoEnCo entered into a road surface contract consisting principally of asphalt pavement of the Khushuut Road linking the Khushuut mine site and the Yarant Border as well as construction of some service stations along the roadway for better running of vehicles and maintenance. The road surface pavement is expected to be completed this year to enhance the transportation of coking coal which will in the meantime have commenced.

MoEnCo signed an engineering design services contract with China Coal Shenyang Design Institute for the engineering and design of initial 12 MegaWatts (MW) power generation facility. Our plans are to provide an initial 12MW electrical power to the mining operation and expand the power plant to provide power into the local power grid of western Mongolia. The initial 12MW design will be presented to the Mongolian government in January 2011 for approval.

May 2010

One year mine plan was approved on May 12.

Over 700 foreign workers arrived in Mongolia to complete construction of the Khushuut Road.

June 2010

Environmental management plan for mine was approved on June 4.

MoEnCo and Leighton finalized and signed the Khushuut Coal Mining Agreement for the commencement of mining operations in July 2010 with the objective of producing first coal in August 2010.

Caterpillar mining equipments were transported to Khushuut from the capital, Ulan Bataar.

Mr. Dennis Price was appointed as the Chief Operating Officer (Mongolia).

Mr. Frank Witzel retired as the Director of Geology.

July 2010

Mining operations began.

Mr. David Henderson was appointed as the Director of Geology.

SUMMARY

We believe the Company is on course to begin the production and sale of coal from the Khushuut Coking Coal Project shortly. Moreover, we will continue to carry out various exploration efforts, such as:

1. Exploration at the iron ore deposit, which was completed last year and ongoing evaluation work is being processed by John T. Boyd;

2. Exploration in the north of the existing Khushuut Coking Coal Project is ongoing; and

3. Exploration program at a copper prospect near Khushuut.

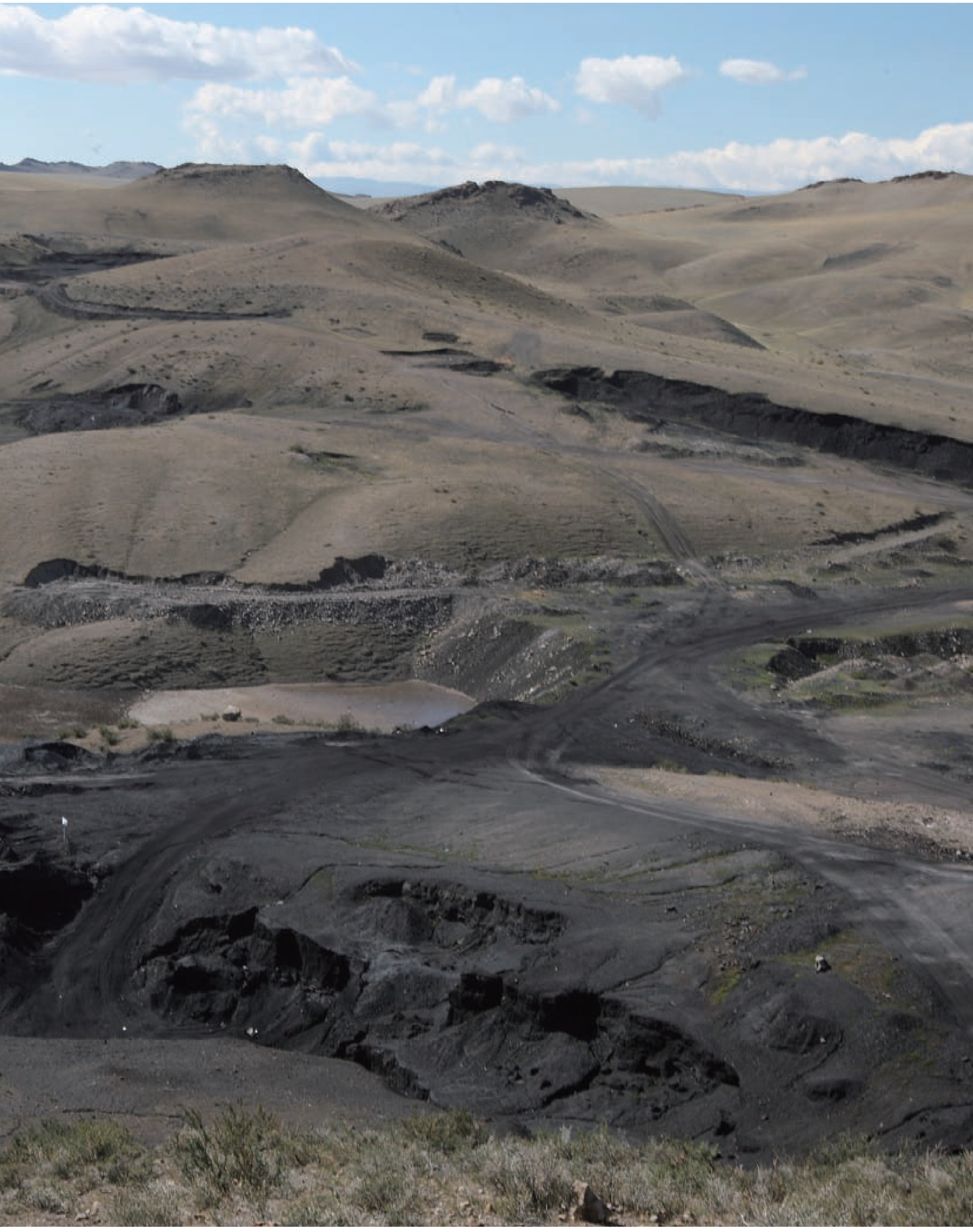
We have also planned production with ongoing favorable developments in Xinjiang, one of MEC's core markets. After Chinese President Hu Jintao's visit to the Xinjiang Uygur Autonomous Region in August 2009, the Chinese central government in May 2010 announced plans to develop Xinjiang into another powerhouse of Chinese economy, such as doubling fixed asset investment, reforming taxes on oil and other resources, and raising personal income levels over the next five years. It is estimated that fixed asset investment in Xinjiang will rise to more than 2 trillion Yuan over the next five years, and these new investments will create substantial demand for coking coal and other natural resources.

As production is coming on line soon and favorable local government policies are being implemented in our core markets, we believe the future of our Mongolia assets is very favorable for our shareholders. With our dedicated team and professional partners, we will continue to create value for MEC's stakeholders.

James J. Schaeffer, Jr
Chief Executive Officer

July 16, 2010

Management Discussion and Analysis



Management Discussion and Analysis

OVERVIEW

The Company is an energy and resources developer. Prior to 2007, the Group was principally engaged in property investments and aircraft charter. The acquisition of 34,000 hectares of concession areas in Western Mongolia in 2007 by the Group marked a new episode and commitment of the Group to become an energy and resources developer. After a series of acquisitions, the Company has enlarged its concession areas of 34,000 hectares to approximately 330,000 hectares for coal, ferrous and non-ferrous resources in Mongolia. Management is now focusing on the principal project of the Group, the Khushuut Coking Coal Project, which is within 600 hectares of the concession areas. The Group is also exploring and prospecting other concession areas for further coal, copper, gold and other resources.

RESULTS ANALYSIS

During the financial year ended March 31, 2010 (the "**Financial Year**"), we continued our focus to bring the Khushuut Coking Coal Mine into mining operation and commercial production within 2010. We have already commenced the initial mining operations with the assistance of our mining contractor Leighton LLC.

Continuing operation

No revenue for the year as the Khushuut Coking Coal Mine was at the mine development stage during the reporting period. The other income in last year was the rental and related income from the Hong Kong investment properties which were disposed of during the year 2009.

Interest income dropped significantly to HK$2.3 million (2009: HK$19.0 million) as more cash resources were utilized in the mine development and related activities during the year.

The increase in staff costs to HK$63.2 million (2009: HK$46.9 million) was due to the growth of workforce in particular experienced managerial staff were recruited for our energy and resources business.

The finance costs dropped by 47% to HK$91.6 million (2009: HK$171.9 million). The reduction was purely due to the capitalization of borrowing costs for an amount of HK$113.8 million (2009: HK$49.0 million) directly attributable to the construction of the development in progress during the year.

Fair value gain from held-for-trading investments included an unrealized fair value gain of HK$62.7 million (2009: Loss of HK$24.0 million) from Hong Kong listed investments reflected the Hong Kong stock market rally during the year. Besides, the surge in Hong Kong stock market provided the Group with a good opportunity to realize one of its listed investments in Hong Kong with a resulting gain of HK$10.1 million (2009: Nil).

Share of losses of associates amounted to a total of HK$31.5 million (2009: HK$3.2 million), the bulk of which was attributable to 新疆凱禹源礦業有限公司 (Xinjiang Kai Yu Yuan Mining Corporation Limited) ("**Kai Yu Yuan**"), an associate in which the Group has an indirect interest of 25% up to March 23, 2010. Thereafter, the Group's interest in Kai Yu Yuan was reduced to 19%. According to the consolidated financial Statements of Mongolian Resources (Hong Kong) Company Limited ("**MRHK**"), the immediate holding company of Kai Yu Yuan, prepared under Hong Kong Financial Reporting Standards, its loss was primarily due to the recognition of pre-operating expenses on various investment projects.

Discontinued operation

On December 9, 2009, the Company entered into a conditional agreement with Vision Values Holdings Limited to dispose of the aircraft charter flight business for approximately HK$94.7 million. The disposal was completed on March 1, 2010. Following the disposal, the results of aircraft charter flight business was reported as a discontinued operation. Loss for the year from discontinued operation was HK$68.9 million (2009: HK$18.3 million). The loss was mainly due to the revaluation loss of the G200 aircraft during the year and impairment loss on deposit paid for acquisition of a Falcon 900EX business jet.

Loss attributable to the equity holders of the Company

For the current financial year, the Group recorded a loss attributable to the equity holders of the Company of HK$317.4 million (2009: HK$438.4 million). The basic and diluted loss per share (from continuing and discontinued operations) are both HK5.22 cents (2009: basic and diluted loss per share are both HK7.25 cents).

MEC has selected Leighton, the world's largest mining contractor, for the Khushuut Coking Coal Project

BUSINESS REVIEW

During the Financial Year, the following acquisition and disposal were made:

(i) In July 2009, we acquired 2,986 hectares of concession in Bayan-Ulgii in Western Mongolia for iron resources. We have appointed an independent technical adviser to assess the technical and economic viability of this project.

(ii) In December 2009, the Group disposed of its entire issued share capital in Glory Key Investments Limited ("**Glory Key**") and the related shareholders' loan to Vision Values Holdings Limited. The principal asset of Glory Key was a Gulfstream G200 aircraft which the Group used to provide aircraft charter business.

Development of the Khushuut Coking Coal Project

Mining Contractor

In November 2009, we selected Leighton LLC, a member of the Leighton Group, which is the world's largest mining contractor, as our mining contractor for the management and operations of the Khushuut Coking Coal Project. Leighton LLC has since mobilized and, as noted, commenced initial mining operations.

After a series of negotiations, the Group finalised the long term mining contract for 6 years with Leighton LLC in June 2010. The contract sum is estimated to be approximately AUD273 million (approximately HK$1,856.4 million) subject to adjustments on the amount of coal produced as required by us from time to time in response to mining and other market conditions. Leighton LLC will be responsible for all mining activities at the Khushuut Coking Coal Mine including loading and hauling of waste, loading and hauling of coal, drilling and blasting, mine planning, technical support and site camp management.

In the course of the development of our Khushuut Coking Coal Mine, we have entered certain engineering contracts including, amongst others, the following:

Coal Processing Equipment

We plan to produce an initial coal product that includes initial separation of coal from rock material during the first two years of commercial production before a wash plant is built. In March 2010, MoEnCo LLC, our indirect operating subsidiary in Mongolia, signed an engineering design services contract for RMB1.4 million (approximately HK$1.6 million) with China Coal Shenyang Design Institute for the engineering and design of initial coal processing equipment known as a Rotary Breaker for the Khushuut Coking Coal Project. This will provide mechanical separation of coal from rock material ability to upgrade the raw coal produced at the mine site prior to shipment to the Chinese market.

Power Plant

In April 2010, MoEnCo LLC signed another engineering design services contract with China Coal Shenyang Design Institute for the engineering and design of an initial 12MW power generation facility for RMB5 million (approximately HK$5.7 million). Our plans are to provide an initial 12MW electrical power supply for our mining operation and with potential expansion to 36MW to supply electricity to the local network. The initial 12MW design will be presented to the Mongolian government around January 2011 for approval.

Khushuut Road

Road transportation is an essential part for our upcoming commercial production. The road foundation work of the 310km Khushuut Road from the Khushuut coal mine to the border of Xinjiang was substantially completed in September 2009.

On April 9, 2010, the Group entered into the road surface pavement contract consisting principally of asphalt pavement of the roadway and construction of some service stations along the roadway of approximately 340 kilometers with an independent contractor for RMB488.2 million (approximately HK$556.5 million). The road surface pavement is expected to be completed this year to facilitate the transportation of the Khushuut coking coal upon commercial production. The paved road surface will provide improved efficiency of the trucking operations and reduce our operating and maintenance costs for the road.

MEC entered a 10-year Coal Supply Agreement with the Baosteel Group

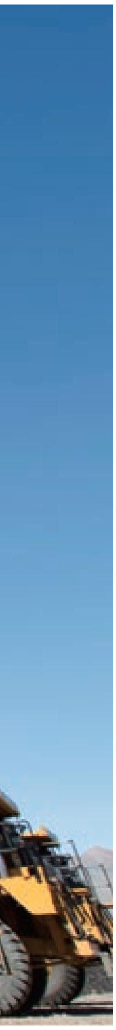
Customers

In January 2010, MEC entered a Long Term Coal Supply Agreement with the Baosteel Group, Baosteel Bayi, Xinjiang. Under this agreement, Baosteel Bayi has agreed to purchase a minimum of at least 9.6 million to 10 million tonnes through 10 years subject to the periodic delivery terms including the port of delivery, the delivery price and quantity to be agreed between the parties prior to actual coal delivery.

Apart from Baosteel Bayi, a number of potential buyers have expressed interests in purchasing our coking coal product and we shall consider expanding our customer base, where appropriate, with increased production over time.

Other Coal and Mineral Concession Areas in Western Mongolia

Our total concession areas for coal, ferrous and non-ferrous resources in Western Mongolia were around 330,000 hectares at the end of the Financial Year. Apart from the Khushuut Coal Mine, which is 600 hectares of our concession areas, we have conducted general reconnaissance and



initial explorations in some areas for potential resources in the Financial Year. We will continue the exploration and to develop plans for potential resources, such as:

- assessing the technical and economic viability of the iron ore deposit at Bayan-Ulgii in Western Mongolia
- exploring potential coal resources in the north of the existing Khushuut Coking Coal Mining Project
- developing exploration program at a copper prospect near Khushuut
- ongoing reconnaissance works for copper & gold prospects in the Gants Mod and the Govi-Altai areas.

Other Energy and Related Resources Investments

Oil and Gas

We have one oil and gas project located in Southern Mongolia, 150km from the border with Erlian, Inner Mongolia, PRC with a relatively developed transport infrastructure. It is in Ergel XII of approximately 1.18 million hectares which we, as a 20% consortium member, won in an open tender for a production sharing contract with the Government of Mongolia. The project requires ratification by the Mongolian Parliament. This is also regarded as a project for our future growth opportunity.

For better allocation of our resources, we have determined not to pursue another project of 487,509 hectares in Western Mongolia which we had a 20% interest.

Mineral Resources

We entered into an agreement to acquire 20% benefits relating to a multi-metals project in Xinjiang with explored tungsten trioxide and tin resources in March 2008. As the mining licence under this project has not been obtained, we agreed to an extension for a completion to take place not later than September 30, 2010.

Xinjiang Investment

We currently have 19% interest in MRHK, a Hong Kong incorporated company, which in turn owns 100% beneficial interest of Kai Yu Yuan and 新疆凱禹通物流園有限公司 (Xinjiang Kai Yu Tong Logistics Park Company Limited) ("**Kai Yu Tong**") respectively. The business scope of Kai Yu Yuan includes among others, to explore in coal, copper and iron resources and Kai Yu Tong is intended to engage in logistic related services. Further, MRHK has formed a joint venture company with China Coal Geology Bureau Team 129 for coal exploration in Xinjiang. MRHK has 80% interest while China Coal Geology Bureau Team 129 has the remaining 20% interest in the joint venture company.

Private Jet Business

The Group completed the disposal of its Gulfstream G200 aircraft through the disposal of Glory Key in March 2010. Prior to commercial production of the Khushuut Coking Coal Project, aircraft charter was the only source of revenue to the Group. As the Group is principally focused on its energy and related resources business, the private jet charter was considered a residual business to the Group. In May 2010, the Group terminated the acquisition of a new Falcon 900EX aircraft.

FINANCIAL REVIEW

1. Liquidity and financial resources

During the year, the Group's capital expenditure and investments were funded from cash on hand and internal cash generation. However, it is prudent for the Group to have additional working capital and funding for necessary infrastructures for its upcoming mining operation. The Group on April 27, 2010 entered into a subscription agreement with Golden Infinity Co., Ltd ("**Golden Infinity**") which Golden Infinity as a subscriber agreed to subscribe for convertible note with an aggregate principal amount of HK$300 million. The subscriber is a company wholly and beneficially owned by Mr. Lo Lin Shing, Simon (Chairman and executive director). The subscription is subject to fulfillment of certain conditions and therefore, has not been completed at the date when these financial statements are approved for issue.

The borrowings of the Group as at March 31, 2010 comprised loan note and convertible notes amounted to HK$1,963.0 million (2009: HK$1,757.6 million). The increase was due to the accrual of interest for the year calculated at effective interest rates in the range of 10.43% to 14.14%. Of the total borrowings, 12.9 per cent were repayable within 12 months and the rest was falling in the 1 to 2 year maturity profile.

As at March 31, 2010, the cash and bank balances were HK$121.3 million (2009: HK$660.9 million). The decline in cash balances was largely caused by the usage of funding in the mine development and related activities such as construction of the road from the Group's mine areas in Khushuut, Western Mongolia to the Yarant/Takeshenken border crossing with Xinjiang, PRC and the payment of cash consideration for the acquisition of an exploration concession with ferrous resources in Mongolia.

The liquidity ratio as at March 31, 2010 was 1.07 (2009: 24.0).

2. Investment in listed securities

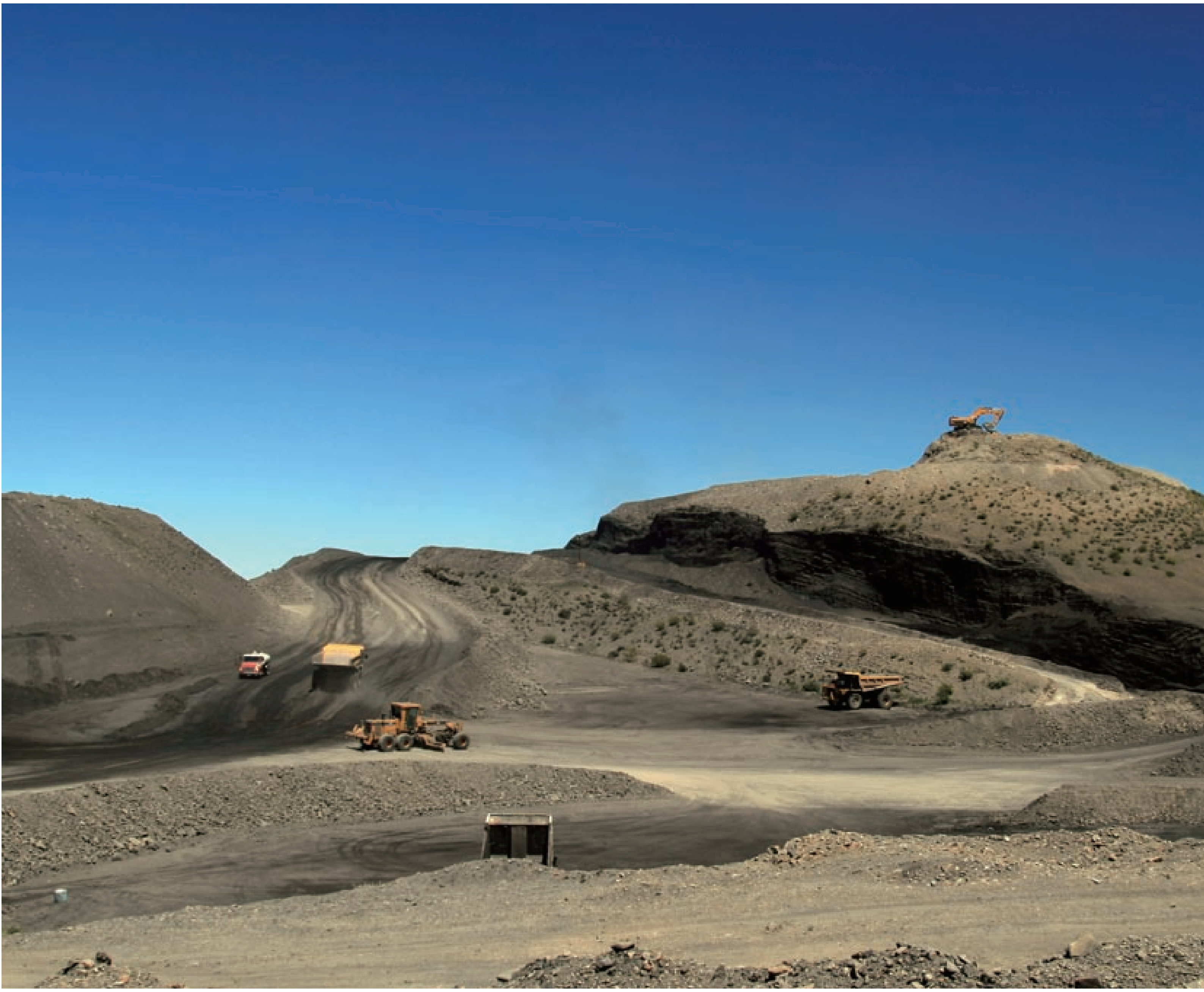
As at March 31, 2010, the Group's held-for-trading investments comprised of equity securities listed in Hong Kong with fair value of HK$45.2 million (2009: HK$28.7 million).

3. Charge on Group's assets

There were no charges on the Group's assets for each of the two years ended March 31, 2009 and 2010.

4. Gearing Ratio

As at March 31, 2010, the gearing ratio of the Group was 0.13 (2009: 0.12) which was calculated based on the Group's total borrowings to total assets.



5. Foreign Exchange

The Group mainly operates in Hong Kong, Mainland China and Mongolia. The Group's assets and liabilities are mainly denominated in Hong Kong dollar, United States dollar, Renminbi and Mongolia Tugrik. The Group does not have a foreign currency hedging policy. However, management will monitor foreign exposure and will consider hedging significant currency exposure should the need arise.

6. Contingent liabilities

As at March 31, 2010, the Group did not have significant contingent liabilities (2009: Nil).

7. Dilution of interests in associated companies

On March 23, 2010, the Group's associated company MRHK, an investment holding company which owns 100% beneficial interest of Kai Yu Yuan and Kai Yu Tong and an 80% interest in a joint venture company, has allotted and issued additional shares to its existing major shareholder. Pursuant to the allotment and issuance of shares by MRHK, the Company's shareholding in MRHK has decreased from 25% to 19%. There is no material financial impact on such dilution.

RISK FACTORS FACING US

The Group's business may from time to time be faced with certain risk factors including those set forth under the Company's circulars of March 22, 2007 and June 25, 2007. Possible risk factors which may be faced by the Group include, among others, the following:

Cyclical nature of coal markets, ferrous and non-ferrous metals markets and fluctuations in coal, ferrous and non-ferrous metal prices

The revenue of our operation depends on successful commercial production of coal, ferrous and non-ferrous resources products in our concession areas.

Therefore, our future business and results of operations are dependent on the supply of and demand for coal, ferrous and non-ferrous resources globally, in particular, the PRC.

The fluctuation in supply and demand of these resources can be caused by numerous factors beyond the Group's control, which include, but not limited to:

(i) global and domestic economic and political conditions and competition from other energy sources; and

(ii) the rate of growth and expansion in industries with high demand of coal, ferrous and non-ferrous resources, such as steel and power industries.

There is no assurance that the PRC, which we assume as our major market, demand for coal, coal-related products, ferrous and non-ferrous resources products will continue to grow, or that the demand for these products will not experience excess supply.

Development of a mining project may take time and factors affecting its development

In a nutshell, development of a mining project will take time and this includes going through the development process of reconnaissance, exploration, deposit analysis and mine planning. There is no guarantee that a planned development may overcome all hardships encountered during these processes. Ultimate commercial viability of a project will depend on whether the deposit is of the desired attributes, proximity to potential markets, availability of infrastructure and transportation networks, labour costs and availability, competition of other energy resources, global economic conditions. Governments' regulations and policies such as taxes, royalties may also have a direct or indirect impact on encouraging or discouraging investment on the mining sector. Not all planned projects may achieve the intended economic benefits or demonstrate commercial feasibility.

Significant and continuous capital investment

The mining business requires significant and continuous capital investment. Planned mine exploration and coal production projects may not be completed as planned, may exceed the original budgets and may not achieve the intended economic results or commercial viability.

Actual capital expenditures for the projects may also differ than planned in the course of development. Such factors include locality and geology of the mine sites, method of excavation, availability of transportation networks, the ancillary infrastructure requirements and distance to the markets etc.

Policies and regulations

Mining business is subject to extensive governmental regulations, policies and controls. There can be no assurance that the relevant government will not change such laws and regulations or impose additional or more stringent laws or regulations. Failure to comply with the relevant laws and regulations in any mine development and coal production projects may adversely affect the Group. The following are some of the relevant laws and regulations in Mongolia:–

For example, under the Minerals Law the State can claim up to 50% interest in entities holding so-called "deposits of strategic importance". The law also states that a mineral deposit is of strategic importance if a deposit may have a potential impact on natural security, economic and/or social development of the country at regional and national levels, or that is capable of producing greater than 5% of the gross national product of any given year. So far this does not affect our Khushuut Coking Coal Mine and there is no assurance that this will not be happened in the future.

In addition, under the Minerals Law, mineral exploration licences are granted for an initial period of three years. Holders may apply for an extension of the licences for two (2) successive additional periods of three years. Renewal of licences must be made timely and subject to payment of annual licence fee. The Minerals Law also states the licence holders are obligated to meet a minimum exploration expenditure requirement. Failure to meet these requirements may subject to licence cancellation by the Mongolia authority.

The Mongolian authorities may also impose moratorium on any licences if the holders are in breach of any relevant laws in Mongolia.

On July 16, 2009, the Parliament of Mongolia enacted the Mining Prohibition Law (the "**MPL**") which prohibits minerals exploration and mining in areas such as headwaters of rivers and lakes, forest areas and areas adjacent to rivers and lakes. Under the MPL, new exploration licenses and mining licenses overlapping the defined prohibited areas will not be granted, while previously granted licenses that overlap the defined prohibited areas will be terminated within five months following the adoption of the law. The MPL further states that affected license holders shall be compensated.

Pursuant to the MPL the Mongolian government was supposed to define the boundaries of the relevant prohibited areas by October 16, 2009 but it had not done so by the prescribed time. Details as to how the compensation is determined have not been specified in MPL and the Mongolian government has not yet released any further guidance on how to interpret the MPL. Based on the best knowledge of the management, no existing licenses have been revoked under the MPL.

According to the preliminary list prepared by the Mineral Resources Authority of Mongolia (subject to finalization), we have three exploration licences under MoEnCo LLC for coal ferrous and non-ferrous resources and the two exploration licences of Zvezdometrika LLC for ferrous resources which may be affected by the MPL. If the MPL is implemented and no adequate compensation is paid, there will be no material financial impact on MoEnCo LLC for the relevant affected licences and the potential effect on Zvezdometrika LLC could be referred to note 17(b) of the financial statements. Our licences under the Khushuut Coking Coal Mine have not been affected.

Country risk

The business of the Group is currently in Mongolia with the target market in the PRC.

There can be a risk relating to the likelihood that changes in the business environment will occur which reduces the profitability of doing business in Mongolia and/or the PRC. Changes of political and economic conditions in either Mongolia or the PRC may adversely affect the Group.

There is no assurance that the Group's assets or business will not be subject to nationalisation, requisition or confiscation due to change of laws or political conditions.

Environmental protection policies

Mining and exploration business is subject to Mongolian environmental protection law and regulations. Under Article 66 of the Minerals Law, if a license holder violates environmental protection legislation, the entity holding the license may be fined or its activities suspended until it has complied with environmental and other regulations. In a worst case scenario a license may be revoked for non-compliance pursuant to Article 56 of the Minerals Law.

If the Group fails to comply with existing or future environmental laws and regulations, the Group may be required to take remedial measures, which could have a material adverse effect on our business, operations, financial condition and results of operations

OUTLOOK

From our initial acquisition of the 34,000 hectares of concession areas, into 330,000 hectares and the initial mining operations at 600 hectares of our concession areas at the Khushuut Coal Mine, these have required extensive effort by the Group's management and staff.

We saw rapid exploration and demonstration of approximately 149 million tonnes of JORC in-place resources, which are substantially coking coal at the Khushuut Coal Mine. We identified the Xinjiang market as the market place for our premium coking coal and commenced initial mining in a rapid but prudent manner. We also upgraded the Khushuut Road for an aggregate sum of RMB1.35 billion (approximately HK$1.54 billion). These demonstrate our commitment in the Khushuut Coking Coal Project and the viability of our business model as an energy and resources developer which we shall repeat for our other projects.

We are on target to commence commercial production this year. Our initial plan is an annual production rate of 3 million tonnes raw coal by the end of 2011 with the intention to move to an annualized production rate of 5 to 6 million tonnes or more over time. We are also working on exploring our other resources and currently prospecting for further coal, copper and gold resources. We will also consider any potential energy and resources projects as and when the opportunities arise and to maximize the return to our shareholders through a sustainable development of our projects with regard to the principles of "People, Planet and Profit".

Exploration and Mining Concessions of the Group

The information of the Group's exploration and mining concession areas in Western Mongolia for coal, ferrous and non-ferrous resources are as follows:

Licence (Licence no.)	**Location** (resources)	**Mine Area** (Hectare)*	**Licence date**	**Licence valid period**#	**Development status**
Initial Acquisition (announced on February 7, 2007)	(coal resources)				
1414A, 1640A, 4322A, 6525A, 11887A, 11888A, 11889A, 11890A, 11515X (titles in the name of a MEC Group company)	Khushuut, Khovd, western Mongolia	34,000	Various (please refer to circular of March 22, 2007)	9 years for Exploration Licences (X) ▲ and 70 years for Mining Licences (A) ▲▲	From exploration of over 600 hectares during 2007, MEC demonstrated 460 million tonnes of coal resources of which 181 million tonnes comprise premium coking coal resources. Approximate 149 million tonnes of in-place resources according to JORC standards are reported from further analytical work. Working on commercial production in 2010. MEC will continue to explore resources in these areas for further resources development potential.
Further Acquisition (announced on May 31, 2007)	(coal, ferrous and non-ferrous resources)				
8976X, 15289A, 11628X, 11724X (titles in the name of a MEC Group company)	Khovd, western Mongolia	32,000	Various (please refer to circular of June 25, 2007)	9 years for Exploration Licences (X)	MEC will explore resources in these areas for further resources development potential.
Sub-total Hectares		**66,000**			

Licence (Licence no.)	Location (resources)	Mine Area (Hectare)*	Licence date	Licence valid period#	Development status
Acquisition (announced on May 5, 2008)					
2913A	Olon Bulag, western Mongolia	38	January 24, 2007	70 years for Mining Licence (A)	MEC will explore resources in these areas for further resources development potential.
7460X	Olon Bulag, western Mongolia	276	January 24, 2007	9 years for Exploration Licence (X)	As above.
11719X	Govi-Altai, western Mongolia	216,644	January 23, 2007	9 years for Exploration Licence (X)	As above.
12126X	Govi-Altai, western Mongolia	41,386	January 16, 2007	9 years for Exploration Licence (X)	As above.
12315X	Govi-Altai, western Mongolia	3,249	January 2, 2007	9 years for Exploration Licence (X)	As above.
5309X	Khovd, western Mongolia	1,415	January 24, 2007	9 years for Exploration Licence (X)	As above.
Sub-total Hectares		**263,008**			
Acquisition (announced on July 10, 2009)	(ferrous resources)				
14349X	Bayan-Ulgii, western Mongolia	2,986	October 24, 2008	9 years for Exploration Licence (X)	General reconnaissances and initial exploration performed. Pre-feasibility currently on-going by independent technical adviser.
14426X	Khuvsgul, northern Mongolia	4,513	November 19, 2008	9 years for Exploration Licence (X)	No plan
Sub-total Hectares		**7,499**			
Total Hectares		**336,507**			

* *Note: 1 Hectare = 10,000 square metres. That is an area of 100m x 100m.*

\# *The Exploration Licences are for 3 years with two further extensions of 3 years. The Mining Licences are for 30 years with two further extensions of 20 years.*

▲ *(X) stands for Exploration Licence(s)*

▲▲ *(A) stands for Mining Licence(s))*

Investor Relations Report

OVERVIEW

MEC is committed to build strong investor relations ("**IR**"). It has in place effective communication channels to reach existing and potential shareholders. The Company maintains high corporate transparency through timely disclosure of business information. In the future, the Company will continue to enhance its investor relations endeavors with the aim of safeguarding the interests of shareholders and all stakeholders.

Dedicated IR Team

The Company has a specialized team to handle IR issues. MEC's IR department is not only responsible for disseminating Company information to the public, but also serves as the bridge through which the Company communicates with and gauges the views of investors while relaying them the latest development of the Company. The team, through regular and close contact with investors, has helped the Company addressing investor concerns and in turn facilitated investment decisions.

Timely Disclosure

The Company is keen on keeping the community up-to-date on its latest business pursuits. Updated company's development is disclosed timely through public announcement, distribution of press releases and CEO Technical Summary, which can all be found on MEC corporate website (www.mongolia-energy.com) for convenient access by investors and the public.

IR ACTIVITY REVIEW

Financial Report

Results reports are the most important documents for keeping the investment community informed about the Company. Thus, the Company compiles the reports with extensive discussions of its financial and operational performances, development strategies and future outlook.

Enhanced Communication Channel

With the world having entered the digital age, MEC has constantly kept its online communication platform in the best shape. From time to time, the company revamps the corporate website to make it more appealing and user-friendly to investors. This has also contributed to better understanding between the Group and the shareholders and the investment communities. Visitors to the Company's corporate website can also find pictures of the first coal mine project of the Company in its resource-rich area of Khushuut, Western Mongolia.

Investor Conference and Road Show

In the last financial year, the MEC management participated in a number of investor conferences organized by reputable investment banks such as UBS, Credit Suisse and CLSA. The Company also went on non-deal investor road shows to key financial hubs including Hong Kong, Singapore, Tokyo, Sydney, Toronto, Edinburgh, London and New York with the objectives of expanding its international shareholder base and enhancing analyst coverage.

Investor Meeting

Regular face-to-face meetings and telephone conferences were arranged with investors during the year for the management believes direct dialogues with shareholders, potential investors, analysts and fund managers are conducive to mutual understanding and high corporate transparency.

Site Visit

For investors to gain direct understanding of the daily operation and working environment of the Company, the Company had arranged a site visit for representatives of institutional investors to its Ulaanbaatar office and coking coal mine in Khushuut, Western Mongolia during last year. The Company will arrange similar visit in the coming financial year for the media, analysts and investors.

Investor Audit

The Company conducts investor audits regularly to gain in-depth understanding of how investors perceive its operations, valuation, financial performance and future development strategies. The findings of the audits have provided valuable reference to the Company in improving investor relations strategies as well as disclosure quality.

Media Relations

To fully leverage the news media as a communication channel with investors, retail and institutions, The Company arranged interviews and conference calls for reporters during which business information and views on the industry were provided for the media to relay to the public.

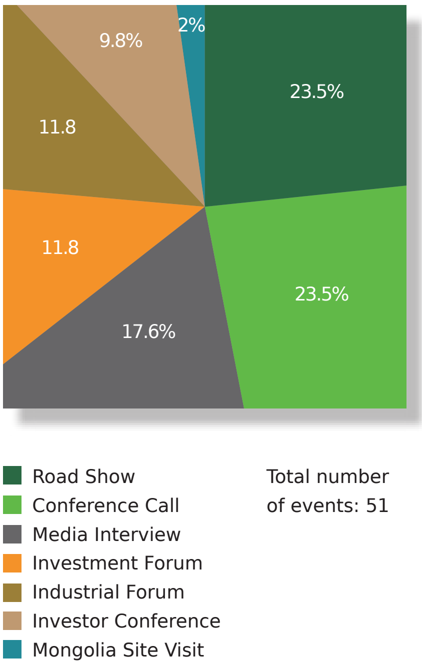
Listing Information

HKEx Stock Code	: 276
Board Lot	: 1,000
Number of issued shares	: 6,103,047,828
Email	: ir@mongolia-energy.com
Web site	: www.mongolia-energy.com

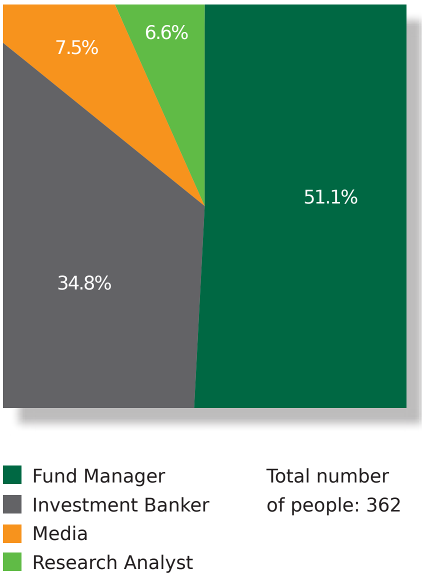
Gordon Poon
Director of Corporate Development & Investor Relations

July 16, 2010

Major IR Events



One-on-one Meetings



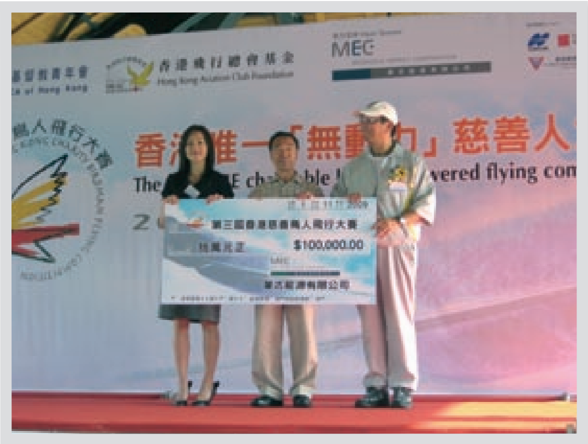
Sustainability has always been a core value at MEC. With anticipated coal production starting this year, we have taken concrete steps towards incorporating social and environmental responsibility into our operations. We started working with an international sustainability strategy company to ensure that sustainability is integrated from the inside out, starting with our HK headquarter. We have developed Sustainability Values and a Vision and Mission to guide us and are currently preparing a Sustainability Strategy for implementation.

Vision

MEC's vision is to be a leader in environmental and social responsibility in the energy/resources industry. We want our brand to be recognized, not only for developing energy, but also as a leading corporate citizen that integrates our Sustainability Values from the inside out – with Integrity and Responsibility.

Mission

We will carry out our Sustainability Vision through an assessment of our current operations to determine our action plan. We will collaborate with all our stakeholders to achieve our goals; these include our investors, employees, clients, local communities, vendors and suppliers. Through collaboration, we hope to inspire and educate our stakeholders on social responsibility and a meaningful way of living and working.



Value

MEC's Sustainability values are driven by Integrity and Responsibility:

Transparency
Opportunity
Community
Action
Responsibility
Education

MEC's business operations are driven by the belief in People, Planet, and Profit – the 3P's. In this section, we will focus on the actions that MEC has taken to make a positive impact on People and Planet.

PEOPLE: FY 2010 CHARITABLE DONATIONS

"Local Community", "Youth", and "Natural Disasters Aid" are all an important aspect of MEC's charitable work and contributions for the fiscal year. Since our headquarter offices are located in Hong Kong, we contributed over $100,000 HKD to local organizations benefiting youth. As our mining operations are in Mongolia, we emphasize local community involvement and contributions as a key part of our involvement. MEC has contributed over $2,000,000 HKD to much needed infrastructure such as educational institutions, a senior center, a hospital, and access to water and power supplies. These are projects that we have developed with local people to make the area a better place to live and work. For FY 2011, we have already contributed over $1,000,000 HKD to providing Gachurrt with a children's center and sponsored a Mobile Night Clinic with Christina Noble Children's Foundation HK Ltd.

Table 1: People – FY 2010 Charitable Donations

Area of Focus	Items/Events FY 2010	Benefiting Parties
Youth	AsiaXpat Ball Benefiting the Christina Noble Children's Foundation HK Ltd.	Christina Noble Children's Foundation HK Ltd
	3rd Charity Birdman Flying Competition of Hong Kong	Chinese YMCA of Hong Kong/ HKAC Foundation
	Unicef – Just Love Fundraiser 2009	Unicef
Local Community	Scholarship for University Student in Mongolia	SKS Fund
	Assisting Public School and Kindergarten with Repair and Classroom Extension	Local Community, Mongolia
	Relocation of the Altai Soum Elderly Recreation Center and its Citizens	Local Community
	Donation to Hospital	Local Community Mongolia
	Fuel for Khovd Citizens to Overcome Severe Winter Weather	Local Community Mongolia
	Water and Power Supply to Villages	Local Community, Mongolia
	Donation to Khovd Vocational Training Center	Local Community, Mongolia
	Local School Donation	蘇州櫻花學校, PRC
Natural Disaster Aid	Storm Emergency Relief	Local Community, Mongolia

PLANET: FY 2010

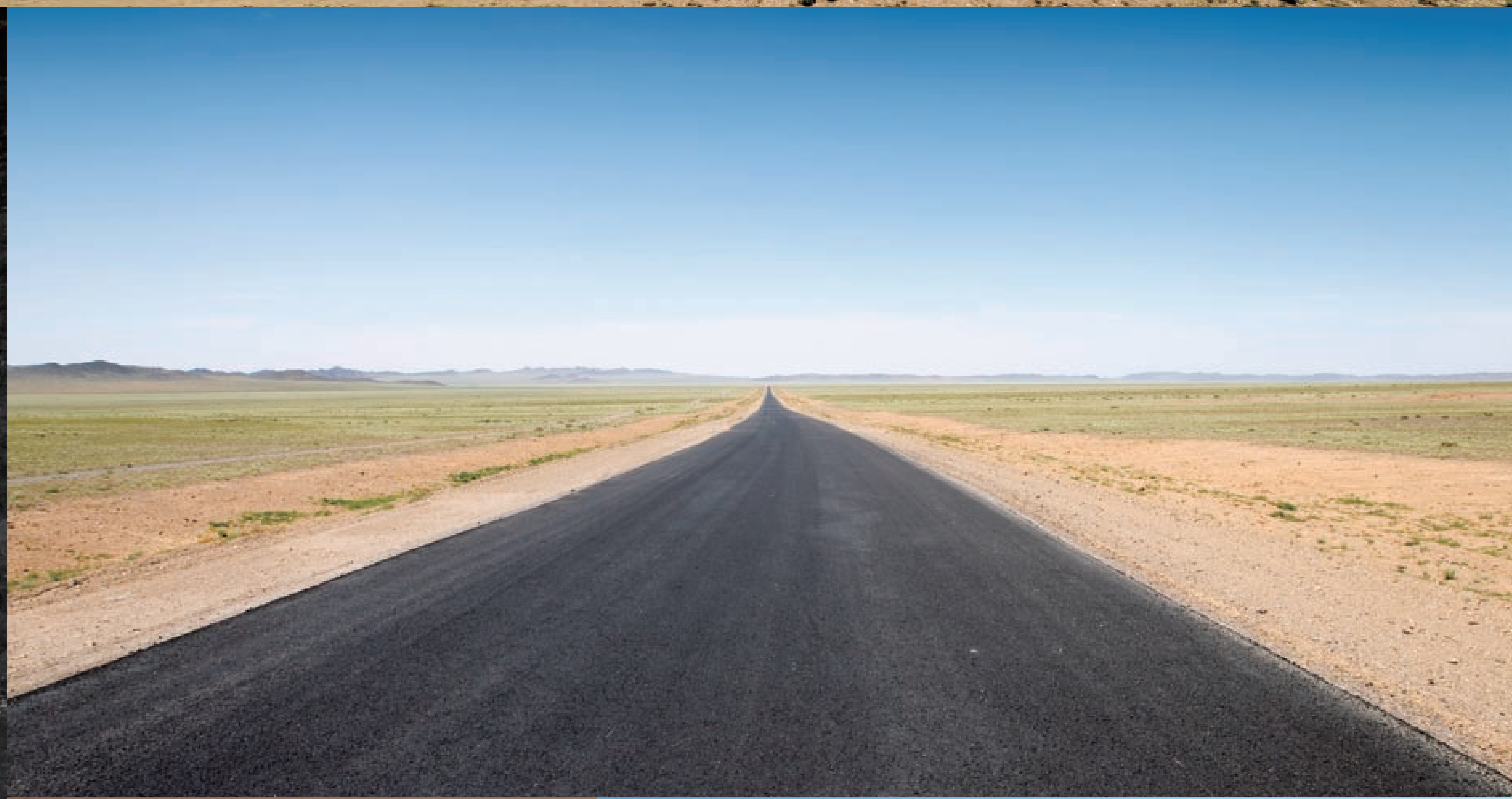
In addition to our charitable contributions, MEC will also begin to integrate sustainability into business operations. We have conducted a baseline assessment of the Hong Kong offices' use of natural resources – energy, water, and waste. We will compile the data, results, and recommendations into a Baseline Assessment Report and share our findings with all HK employees at our office Sustainability meeting. We hope to contribute to a healthier planet; starting out with the education of our employees about social and environmental responsibility. Once our employee education is under way, we will begin implementation of the Report recommendations.


CATERPILLAR






CAT



Corporate Governance Practices

The board of Directors of the Company (the "**Board**") recognizes the importance of maintaining a high standard of corporate governance to protect and enhance the benefits of shareholders. The Board and the senior management of the Company recognize their responsibilities to maintain the interest of the shareholders and to enhance their values. The Board also believes a good corporate governance practice can facilitate a company in rapid growth under a healthy governance structure and strengthen the confidence of shareholders and investors.

The Company has applied the principles of the code provisions of the Code on Corporate Governance Practices contained in Appendix 14 (the "**CG Code**") of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

For the year ended March 31, 2010, the Company has complied with the code provisions of the CG Code except for deviations from the code provision A.4.1 and E.1.2 of the CG Code as summarized below:

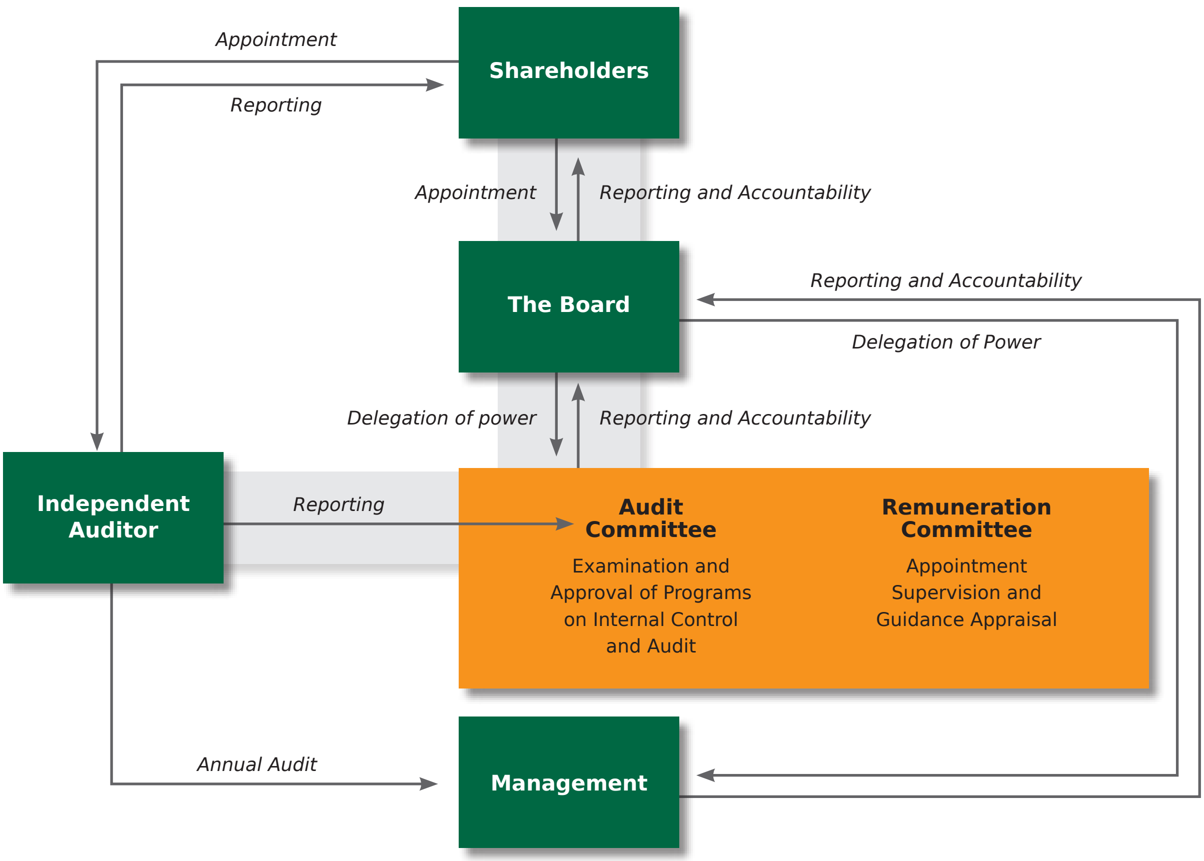
i. Under the code provision A.4.1 of the CG Code, non-executive directors should be appointed for a specific term and subject to re-election.

   None of the existing non-executive Directors of the Company is appointed for a specific term. This constitutes a deviation from code provision A.4.1 of the CG Code. However, they are subject to the retirement by rotation under the Bye-laws of the Company. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG Code.

ii. The code provision E.1.2 of the CG Code stipulates that the chairman of the Board (the "**Chairman**") should attend the AGM of the Company.

   The Chairman did not attend the 2009 AGM due to other business engagement. An executive Director had chaired the 2009 AGM and answered questions from shareholders. The AGM of the Company provides a channel for communication between the Board and the shareholders. A member of the Audit and Remuneration Committee was also available to answer questions at the 2009 AGM. Other than the AGM, shareholders may also communicate with the Company through the contact information listed on the Company's website under the Investor Relations Contact.

Corporate Governance Structure



COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted its own Model Code for Securities Transactions by Directors (the "**Code**"), which is on terms no less exacting than those set out in the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "**Model Code**"). The Code is sent to each Director of the Company on his/her initial appointment and from time to time which is amended or restated.

The Company has also established written guidelines on no less exacting terms than the Model Code ("**Employees' Guidelines**") for securities transactions by relevant employees of the Group who are likely to be in possession of unpublished price-sensitive information of the Company. To date, no incident of non-compliance of the Employees' Guidelines by the employees has been noted by MEC.

To enhance corporate governance transparency, the Code and Employees' Guidelines have been published on the Company's website at www.mongolia-energy.com.

During the period of 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to and including the publication date of the annual results, all Directors and relevant employees are restricted to deal in the securities and derivatives of the Company until such results have been published. The Group Compliance Counsel will send a reminder prior to the commencement of such period to all Directors and relevant employees.

In the period of 30 days immediately preceding the publication of the half-year results or, if shorter, the period from the end of the relevant quarterly or half-year period up to and including the publication date of the results, all Directors and relevant employees are restricted to deal in the securities and derivatives of the Company until such results have been published. The Group Compliance Counsel will send a reminder prior to the commencement of such period to all Directors and relevant employees.

It is stipulated under the Code and/or Employees' Guidelines that all dealings of the Company's securities must be conducted in accordance with the provisions stated therein. Under the Code, Directors of the Company are required to notify the Chairman and receive a dated written acknowledgement before dealing in the securities and derivatives of the Company, and in the case of the Chairman himself, he must notify the designated Director and receive a dated written acknowledgement before any dealing.

All Directors of the Company have confirmed in writing that they have complied with the required standards set out in Model Code and the Code throughout the Financial Year.

DIRECTORS AND OFFICERS LIABILITY INSURANCE

Promoting good corporate governance and managing enterprise-wide risk is a priority of the Company. The Company is convinced that corporate governance and Directors and Officers Liability Insurance (the "**D&O Insurance**") complement each other. The Company has arranged appropriate D&O Insurance coverage on Directors' and officers' liabilities in respect of legal actions against directors and senior management arising out from corporate activities. The D&O Insurance will be reviewed and renewed annually.

THE BOARD

(a) Board Composition

The Board currently comprises three executive Directors, one non-executive Director and three independent non-executive Directors overseeing the operation of the Company. The biographical details of each Directors are set out on pages 42 to 43. Our Board possesses a balance of skills and experience appropriate for the running of the Company's business. They come from different streams with diversified expertise including management, finance, legal and accounting.

The Board members up to the date of the report were:

Executive directors
Mr. Lo Lin Shing, Simon *(Chairman)*
Mr. Liu Zhuo Wei
Ms. Yvette Ong

Non-executive director
Mr. To Hin Tsun, Gerald

Independent non-executive directors
Mr. Lau Wai Piu
Mr. Peter Pun *OBE, JP*
Mr. Tsui Hing Chuen, William *JP*

None of the members of the Board is related to one another.

The Board will consider the following attributes or qualifications in evaluating membership in the Board:

- management and leadership experience;
- skilled and diverse background;
- integrity and professionalism; and
- independency.

During the year ended March 31, 2010, the Board at all times met the requirements under Rule 3.10 of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

All independent non-executive Directors are financially independent from the Company and any of its subsidiaries. The Company has received written annual confirmation of independence from each of the independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules. Accordingly, the Company considers all independent non-executive Directors to be independent.

(b) Role and Function

The Board is responsible for formulating strategic business development, reviewing and monitoring the business performance of the Group, as well as preparing and approving financial statements. The Directors, collectively and individually, are aware of their responsibilities to shareholders, for the manner in which the affairs of the Company are managed and operated. In the appropriate circumstances and as when necessary, the Directors will seek independent professional advice at the Group's expense, ensuring that the Board procedures and all applicable rules and regulations are followed.

The Board gives clear directions as to the powers delegated to the management for the administration and management functions of the Group. The Directors have separate and independent access to members of senior management to make enquiries or obtain necessary information. The representative of the Board will meet the management of the Company from time to time to discuss operating issues of the Group.

All non-executive Directors of the Board are not involved in daily management. The non-executive Directors are helping the Board in determining overall policies of the Company and contributing to the decision making of the Board. They also give independent views on the deliberations of the Board and ensure the financial probity on the part of the Company is maintained in high standard.

For the year ended March 31, 2010, the Board had:

i. reviewed the performance of the Group and formulated business strategy of the Group;

ii. reviewed and approved the annual and interim results of the Group;

iii. reviewed the internal controls of the Group;

iv. reviewed and approved the general mandates to issue shares of the Company;

v. reviewed and approved the price-sensitive transactions;

vi. reviewed and approved the notifiable transactions of the Company; and

vii. reviewed and approved the auditor's remuneration and recommended the re-appointment of Deloitte Touche Tohmatsu as the independent auditor of the Group respectively.

To the best knowledge of the Company, there is no financial, business and family relationship among our directors between the Chairman and the chief executive officer. All of them are free to exercise their independent judgment.

c) Chairman and Chief Executive Officer

The Chairman and Chief Executive Officer of the Company during the year ended March 31, 2010 were Mr. Lo Lin Shing, Simon and Mr. James J. Schaeffer, Jr. respectively.

The Chairman's responsibility is to provide leadership to the Board and formulate the Group's business strategies. The Chairman is also responsible to ensure the Board works effectively, in particular, to ensure all Directors receive reliable, adequate and complete information in a timely manner.

The Chief Executive Officer is responsible to implement the strategic business plans in relation to the energy and related resources business of the Group.

d) Accountability and Audit

The Directors are responsible for preparing the accounts of each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. The Directors shall also ensure that the financial statements of the Group are prepared in accordance with the statutory requirements and applicable accounting policies.

In preparing the financial statements, the Directors consider that the financial statements of the Group are prepared on going concern basis and appropriate accounting policies have been consistently applied. The Directors have also made judgments and estimates that are prudent and reasonable in the preparation of the financial statements.

The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 55 to 56.

e) Internal Control and Risk Management

The Board is responsible for the Group's system of internal control so as to maintain sound and effective internal controls to safeguard the shareholders' investment and the assets of the Group.

The Board has established an on-going process for identifying, evaluating and managing the significant risks faced by the Group. This process includes continuous updating of the internal control system of the Group in response to the changing business environment and regulatory requirements.

The Board also conducts review of the internal controls of the Group to ensure that the policies and procedures in place are adequate. The Board assesses the effectiveness of the Group's internal control system which covers all material controls, including financial, operational and compliance controls and risk management functions. During the year, an independent professional consulting firm was engaged to conduct the internal control review of the Group and reported directly to the Audit Committee. The outcomes of the review were submitted to Audit Committee and no major weakness was identified. The independent professional consulting firm also provided recommendations based on his findings.

To facilitate and enhance better internal control, the Group Compliance Counsel will assist in internal control and review process to ensure the compliance aspects of the Group are met. The Company Secretary will ensure the Board and the Board Committees are provided with timely information and sufficient resources to enable them to discharge their duties.

f) Meetings and corporate communication

The Group makes great efforts to enhance the communication with investors. Our Investor Relations Department is responsible for improving the relationship between the Company and our investors. From time to time, the website of the Company (www.mongolia-energy.com) contains updated information of the Group and press releases are posted on our website in a timely manner. Shareholders can also visit the Company's website for updated information of the Group.

The Company has complied with the Listing Rules regarding the requirements about voting by poll and keeps shareholders informed of the procedures for voting by poll through notices of general meetings in circulars of the Company to shareholders from time to time.

During the year, the Company had held two general meetings including the annual general meeting. In the annual general meeting for the financial year ended March 31, 2009, Directors and independent auditor had attended to answer shareholders' enquiries.

The Board conducts meetings on both regular and ad hoc bases from time to time in relation to the business of the Company. During the year, the Company held four regular Board meetings to consider the final results, interim results, financial and operating performance. The attendance of each Director is as follows:

	Attendance (Number of meetings)
Executive directors	
Mr. Lo Lin Shing, Simon *(Chairman)*	2(4)
Mr. Liu Zhuo Wei	1(4)
Ms. Yvette Ong	4(4)
Non-executive director	
Mr. To Hin Tsun, Gerald	3(4)
Independent non-executive directors	
Mr. Lau Wai Piu	4(4)
Mr. Peter Pun *OBE, JP*	4(4)
Mr. Tsui Hing Chuen, William *JP*	4(4)

BOARD COMMITTEES

The Board has established the following committees with defined terms of reference:

- Audit Committee
- Remuneration Committee

Each Board Committee makes decisions on matters within its terms of reference and applicable limits of authority. The terms of reference as well as the structure and membership of each committee will be reviewed from time to time.

The terms of reference of the Audit Committee and Remuneration Committee are published on our website.

AUDIT COMMITTEE

The Audit Committee has three members, all of whom are Independent Non-Executive Director. Mr. Lau Wai Piu is appointed as the chairman of the Audit Committee. He has appropriate professional qualifications, accounting and related financial management expertise.

a) Composition of Audit Committee Members

Mr. Lau Wai Piu *(Chairman of Audit Committee)*
Mr. Peter Pun *OBE, JP*
Mr. Tsui Hing Chuen, William *JP*

b) Role and Function

The Audit Committee is mainly responsible for:

i. reviewing the Group's financial and accounting policies and financial statements half yearly before submission to, and providing advice and comments thereon to the Board;

ii. discussing with the independent auditor the nature and scope of audit and reviewing audit issues raised by the independent auditor;

iii. reviewing financial controls, internal controls and risk management systems of the Group and in particular, the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programs and budget; and

iv. considering the appointment, resignation or dismissal of independent auditor and their audit fees.

c) Attendance

During the year, the Company had held two audit committee meetings. The attendance rate of the audit committee meeting during the year was 100%. The attendance of each member is as follows:

Committee Members	**Attendance (Number of meetings)**
Mr. Lau Wai Piu	2(2)
Mr. Peter Pun *OBE, JP*	2(2)
Mr. Tsui Hing Chuen, William *JP*	2(2)

During the year, a qualified accountant of the Company attended each audit committee meetings to present the financial results of the Group to the committee members. He also oversees the financial reporting procedures and ensures the financial reporting and other accounting-related issues are complied with the requirements of the Listing Rules.

REMUNERATION COMMITTEE

The Remuneration Committee currently consists of three Independent Non-Executive Directors. The Company has also appointed an external consultant to review and compare the level of compensation paid to the Directors with those prevailing in the market and give recommendation and to review and study the remuneration level of the senior management of the Company and give recommendation.

a) Composition of Remuneration Committee Members

Mr. Lau Wai Piu *(Chairman of Remuneration Committee)*
Mr. Peter Pun *OBE, JP*
Mr. Tsui Hing Chuen, William *JP*

b) Role and Function

The Remuneration Committee is mainly responsible for:

i. reviewing and approving compensation payable to executive Directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;

ii. ensuring an remuneration offer is appropriate for the duties and in line with market practice;

iii. making recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management and engaging independent consultant to conduct report on emolument review; and

iv. ensuring that no Director or any of his associates is involved in deciding his own remuneration.

c) Attendance

During the year, the Company held one remuneration committee meeting. The attendance rate of the remuneration committee meeting during the year was 100%. The attendance of each member is as follows:

Committee Members	Attendance (Number of meetings)
Mr. Lau Wai Piu	1(1)
Mr. Peter Pun *OBE, JP*	1(1)
Mr. Tsui Hing Chuen, William *JP*	1(1)

INDEPENDENT AUDITOR

PricewaterhouseCoopers resigned as independent auditor of the Company with effect from November 27, 2007 and Deloitte Touche Tohmatsu were appointed as independent auditor of the Company on April 8, 2008 to fill the casual vacancy so arising. There have been no other changes of auditors of the Company in the past three years.

Deloitte Touche Tohmatsu was reappointed as independent auditor of the Group at the 2009 AGM. It is the auditor's responsibility to form an independent opinion, based on their audit, on those financial statements and to report their opinion solely to the Company, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. They do not assume responsibility towards or accept liability to any other person for the contents of the independent auditor's report.

The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report" on pages 55 to 56.

During the year under review, the professional fee paid/payable to the Company's independent auditor, Deloitte Touche Tohmatsu is set out as follows:

	HK$'000
Audit services	2,004
Non-audit services	573
	2,577

RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility to prepare the financial statements for each financial period which give a true and fair view of the financial affairs of the Group.

MEC'S WEBSITE

MEC's website (www.mongolia-energy.com) provides comprehensive and accessible news and information of the Company. MEC's website also provides an open communication to our shareholders and other stakeholders. The Company will also update the website information from time to time to inform shareholders and investing public of the latest development of the Company. The latest Annual Report, Interim Report, Company news, latest Company's dynamics and many other information of the Company can be found on our website. That information available is essential for building market confidence.

Directors' Profiles

Lo Lin Shing, Simon

Liu Zhuo Wei

Yvette Ong

MR. LO LIN SHING, SIMON

Chairman and Executive Director

Mr. Lo, aged 54, an entrepreneur, is the Chairman of the Company. He has been an executive director since August 1999. Mr. Lo possesses of around 30 years of experience in the financial, securities and futures industries, including many trans-border transactions. He has been a member of Chicago Mercantile Exchange and International Monetary Market (Division of Chicago Mercantile) since 1986. Mr. Lo is also the chairman of Vision Values Holdings Limited (formerly known as New World Mobile Holdings Limited), the deputy chairman and executive director of International Entertainment Corporation, both of which are listed on The Stock Exchange of Hong Kong Limited. Mr. Lo is also a standing committee member of the Tenth Chinese People's Political Consultative Conference Shanxi Committee. He identifies business opportunities for MEC, including the acquisition of the coal mine in western Mongolia, and provides direction for MEC as a global energy and resources company.

MR. LIU ZHUO WEI

Executive Director

Mr. Liu, aged 57, has been an executive director since April 2008. He holds a bachelor degree from Harbin University of Science and Technology (哈爾濱理工大學). Mr. Liu joined the People's Liberation Army in 1969. As from 1983, Mr. Liu was with the People's Liberation Army General Staff Department (中國人民解放軍總參謀部) and General Armaments Department (總裝備部) involving in the development of military equipment and construction program. Mr. Liu is also an expert in rocket propulsion design and construction. In 2005, Mr. Liu joined All-China Federation of Industry & Commerce (中華全國工商業聯合會) and was formerly its deputy secretary.

MS. YVETTE ONG

Executive Director

Ms. Ong, aged 45, has been an executive director since September 1999. Ms. Ong has over 19 years of managerial experience in the Asia-Pacific region. Prior to joining MEC, Ms. Ong was the Managing Director of AT&T EasyLink Services Asia Pacific Limited. Ms. Ong holds an MBA degree in Management Information Systems and Marketing and a Bachelor degree in Finance and Management from the University of San Francisco.

To Hin Tsun, Gerald

Peter Pun

Tsui Hing Chuen, William

Lau Wai Piu

MR. TO HIN TSUN, GERALD

Non-Executive Director

Mr. To, aged 61, was appointed as an independent non-executive director in August 1999 and was re-designated as a non-executive director in October 2000. Mr. To has been a practising solicitor in Hong Kong since 1975. He is also qualified as a solicitor in the UK, as well as an advocate and solicitor in Singapore. Mr. To is also an executive director of International Entertainment Corporation, and a non-executive director of NWS Holdings Limited, all of which are listed on the Stock Exchange of Hong Kong.

MR. PETER PUN *OBE, JP*

Independent Non-Executive Director

Mr. Pun, aged 79, has been an independent non-executive director since October 1997. He is the chairman and chief executive of the PYPUN group, has over 43 years of international experience in engineering and construction, town and urban planning, and infrastructure and property development. He is a graduate of St. John's University and Tongji University in Shanghai and a postgraduate of Imperial College, London. He has been an Authorized Person and Registered Structural Engineer since 1964 and a Registered Geotechnical Engineer since 2005 under the Hong Kong Buildings Ordinance. He is a fellow of both the Institution of Civil Engineers in the United Kingdom and the Hong Kong Institution of Engineers.

MR. TSUI HING CHUEN, WILLIAM *JP*

Independent Non-Executive Director

Mr. Tsui, aged 59, has been an independent non-executive director since September 2006. Mr. Tsui is the founding partner of Messrs. Lo, Wong & Tsui, Solicitors & Notaries, which was established in 1980. He has been a solicitor of the High Court of Hong Kong since 1977, a solicitor of the Supreme Court of England & Wales since 1980, and a barrister and solicitor of the Supreme Court of Victoria, Australia since 1983. He has also been an advocate and solicitor in Singapore since 1985 and a notary public appointed by the Archbishop of Canterbury, England since 1988. Mr. Tsui was appointed as a Justice of the Peace by the Government of Hong Kong in 1997. He is also an independent non-executive director of International Entertainment Corporation, Taifook Securities Group Limited and Vision Values Holdings Limited (formerly known as New World Mobile Holdings Limited), all of which are listed on the Stock Exchange of Hong Kong.

MR. LAU WAI PIU

Independent Non-Executive Director

Mr. Lau, aged 46, has been an independent non-executive director since September 2004. He has over 20 years of extensive experience in accounting and financial management. He is a member of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants. Mr. Lau is also an independent non-executive director of International Entertainment Corporation, Taifook Securities Group Limited and Vision Values Holdings Limited (formerly known as New World Mobile Holdings Limited), all of which are listed on the Stock Exchange of Hong Kong.

Senior Management's Profiles

MR. JAMES J. SCHAEFFER, Jr 1

Chief Executive Officer

Prior to joining MEC, **Mr. Schaeffer** was the executive director – Asia Pacific of John T. Boyd Company (technical adviser to China Shenhua's IPO in 2005) and is known internationally and throughout the Asia Pacific region to many leading corporations and banking and financial institutions in the energy and resources sectors. In his three decades as a mining consultant, Mr. Schaeffer has conducted numerous technical reviews, coordinated reserve estimations, evaluated fuel supply plans, identified potential coal resources and developed financial regimes and mining regulations for major commercial and government projects. Mr. Schaeffer has been actively engaged in projects throughout the Asia Pacific region, including China, Southeast Asia and Australia. He is also a seminar instructor for different organizations and has published numerous publications and papers on industry-related topics. Mr. Schaeffer is a Registered Professional Engineer in Kentucky, Pennsylvania and West Virginia. He is also a member of the International Society of Mining, Metallurgy, and Exploration. Mr. Schaeffer holds a Master of Science degree in Business Administration, Robert Morris University and a Bachelor of Science degree in Mining Engineering, University of Pittsburgh.

MR. MOHAN DATWANI 5

General Counsel & Assistant to Chairman

Mr. Datwani, a former partner of Paul, Hastings, Janofsky & Walker, specialises in structured transactions for leading global financial and corporate institutions, including acquisition and structuring of acquisition of energy and resources projects in a number of jurisdictions (including China and Mongolia). The product areas of these projects include coal, LNG, oil, power plants, timber and resources. Formerly named as a leading lawyer by Asia Pacific Legal 500 in asset finance, Mr. Datwani assisted the Company in structuring the acquisition of the coal mine in western Mongolia. Mr. Datwani is admitted as a solicitor in England & Wales and in Hong Kong for around 19 years and holds an LL.B and an LL.M. Mr. Datwani is an MBA candidate (Class 2009) with the University of Iowa, Tippie College of Business, International MBA program.

MR. TANG CHI KEI 3

Chief Financial Officer & Company Secretary

Mr. Tang has over 20 years' experience in corporate finance, treasury, accounting and company secretarial work. He has worked in senior finance roles for various Hong Kong listed companies. Mr. Tang holds a master degree of Finance and is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants.

MR. DENNIS CARL PRICE 2

Chief Operating Officer – Mongolia

Prior to joining MEC, Mr. Price was the President of Price Management Consulting LLC, and has been providing consulting services for corporations in the mining industry around the world. Mr. Price has over 30 years of experience in the mining industry worldwide, including Columbia, Georgia, Germany, Indonesia, Kazakhstan, Mongolia, Turkey and the United States. Mr. Price was also formerly the General Director of the largest open-pit mine in Kazakhstan, and has extensive operating and engineering experience in exploration and mining of coal, gold and various other minerals.

MR. POON TUNG HOI, GORDON 4

Director of Corporate Development and Investor Relations

Mr. Poon has over 20 years' experience in investment banking. He worked as senior management in corporate finance and capital markets trading and sales in London, North America, Tokyo and Hong Kong for leading house, including HSBC, CIBC, Bank of America and UBS, prior to taking on consultancy roles on private equities, direct investment and pre-IPO funding transactions globally for leading institutional clients with an emphasis on the Greater China region.

MR. HO CHEUK YIN 6

Director of Corporate Finance

Mr. Ho, a Certified Public Accountant (Practicing) in Hong Kong and a member of The Institute of Chartered Accountants in England and Wales, possesses more than 20 years' extensive experience in the financial industry of Hong Kong, including investment banking, financial management, accounting and auditing. Mr. Ho, a former executive director of a Hong Kong investment bank, completed hundreds of listed companies' corporate transactions including initial public offerings, mergers and acquisitions, takeovers projects and fund raising activities in the past 10 years.

Directors' Report

The Directors present their report together with the audited financial statements of the Company and its subsidiaries (together the "**Group**") for the year ended March 31, 2010.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding and the activities of its principal subsidiaries are in energy and related resources sector. The activities of the principal subsidiaries are set out in note 35 to the financial statements.

The analysis of the principal activities and geographical locations of the operations of the Group for the year ended March 31, 2010 is set out in note 6 to the financial statements.

RESULTS

The results of the Group for the year ended March 31, 2010 are set out in the Consolidated Income Statement on page 57.

No interim dividend was declared (2009: Nil) and the Directors do not recommend the payment of a final dividend for the year ended March 31, 2010 (2009: Nil).

SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in the share capital and the share options of the Company during the year are set out in notes 29 and 30 to the financial statements.

FIVE–YEAR FINANCIAL SUMMARY

A summary of the results for the year and of the assets and liabilities of the Group as at March 31, 2010 and for the last four financial years are set out on page 111.

RESERVES

Movements in reserves of the Group and the Company during the year are set out on page 60 and in note 33 to the financial statements respectively.

DONATIONS

For the year ended March 31, 2010, the Group made donations for charitable and other donations to a total amount of HK$5,125,000.

PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment of the Group during the year are set out in note 13 to the financial statements.

SUBSIDIARIES AND ASSOCIATED COMPANIES

Particulars of the principal subsidiaries and associated companies of the Group as at March 31, 2010 are set out in notes 35 and 18 to the financial statements respectively.

GROUP FINANCIAL INFORMATION

A summary of results, assets and liabilities of the Group for the five years ended March 31, 2010 is set out on page 111.

MAJOR SUPPLIERS AND CUSTOMERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases	
the largest supplier	93%
five largest suppliers in aggregate	100%
Sales (from discontinued operation)	
the largest customer	46%
five largest customers in aggregate	100%

None of the Directors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's share capital) has any interest in the Group's five largest suppliers or customers.

DIRECTORS

The Directors of the Company during the year and up to the date of this report are as follows:

Executive directors

Mr. Lo Lin Shing, Simon *(Chairman)*
Mr. Liu Zhuo Wei
Ms. Yvette Ong

Non–executive director

Mr. To Hin Tsun, Gerald

Independent non–executive directors

Mr. Lau Wai Piu
Mr. Peter Pun *OBE, JP*
Mr. Tsui Hing Chuen, William, *JP*

In accordance with Bye–law 87 of the Bye–laws of the Company, Mr. Lo Lin Shing, Simon, Mr. Lau Wai Piu and Mr. Tsui Hing Chuen, William will retire and, being eligible, offer themselves for re–election at the forthcoming annual general meeting.

The Directors of the Company, including the independent non–executive directors are subject to retirement by rotation and re–election at the annual general meeting of the Company in accordance with the provisions of the Bye–laws of the Company.

Biographical details of the Directors of the Company are set out on pages 42 to 43.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance practices.

Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 32 to 41.

DIRECTORS' INTERESTS

As at March 31, 2010, the interests of the Directors of the Company in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("**SFO**")) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "**Model Code**") were as follows:

Long positions in the shares

Name of director	Capacity	Number of shares interested	Percentage of shareholding
Mr. Lo Lin Shing, Simon	Interest of a controlled corporation/Beneficial/ Interest of spouse (Note)	1,200,739,301	19.675%
Ms. Yvette Ong	Beneficial	1,090,000	0.018%
Mr. To Hin Tsun, Gerald	Beneficial	5,400,000	0.088%
Mr. Tsui Hing Chuen, William	Beneficial	500,000	0.008%
Mr. Lau Wai Piu	Beneficial	201,200	0.003%

*Note: Among the 1,200,739,301 shares, 4,960,000 shares represent interest of Mr. Lo Lin Shing, Simon ("**Mr. Lo**") on an individual basis; while 1,194,029,301 shares represent interest of Golden Infinity Co., Ltd ("**Golden**"). The balancing of 1,750,000 shares represents interest of Ms. Ku Ming Mei, Rouisa ("**Mrs. Lo**"). Accordingly, Mr. Lo is deemed to be interested in the shares in which Golden and Mrs. Lo are interested by virtue of the SFO.*

Save as disclosed above and the section headed "Share Option Schemes", as at March 31, 2010, none of the directors, chief executives and their respective associates had any interests in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the register maintained by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DISCLOSEABLE INTERESTS OF SUBSTANTIAL SHAREHOLDERS/OTHER PERSONS UNDER THE SFO

The register of interests in shares and short positions maintained under section 336 of the SFO showed that as at March 31, 2010, the Company had been notified of the following interests in shares representing 5% or more of the Company's issued share capital:

LONG POSITION OF SUBSTANTIAL SHAREHOLDERS/OTHER PERSONS IN THE SHARES AND/OR UNDERLYING SHARES

Name of Shareholder	Capacity in which such interest is held	Number and description of shares	Percentage of nominal value of issued share capital
Mr. Liu Cheng Lin	Interest of a controlled corporation/Beneficial	1,625,000,000 (Note 1)	26.627%
Puraway Holdings Limited	Corporate	1,525,000,000 (Note 1)	24.988%
Ms. Ku Ming Mei, Rouisa	Beneficial/Interest of spouse	1,200,739,301 (Note 2)	19.675%
Golden Infinity Co., Ltd.	Corporate	1,194,029,301	19.565%
Dr. Cheng Kar Shun	Interest of a controlled corporation/Interest of spouse	394,670,000 (Note 3)	6.467%
Ms. Ip Mei Hing	Interest of a controlled corporation/Interest of spouse	394,670,000 (Note 3)	6.467%
Dragon Noble Group Limited	Corporate	325,570,000	5.335%
Dato' Dr. Cheng Yu Tung	Beneficial/Interest of a controlled corporation	498,972,602 (Note 4)	8.176%
Chow Tai Fook Nominee Limited	Corporate	493,972,602 (Note 4)	8.094%

Notes:

1. *Mr. Liu Cheng Lin is interested in the entire issued share capital of the Puraway Holdings Limited ("**Puraway**"). By virtue of the SFO, he is deemed to be interested in the 1,525,000,000 shares held by Puraway. The 1,525,000,000 shares held by Puraway represents 1,025,000,000 shares and 500,000,000 underlying shares.*

2. *Ms. Ku Ming Mei, Rouisa is the spouse of Mr. Lo Lin Shing, Simon ("**Mr. Lo**") and accordingly, she is deemed to be interested in 1,200,739,301 shares under the SFO.*

3. *Dr. Cheng Kar Shun is interested in the entire issued share capital of Dragon Noble Group Limited ("**Dragon**"). By virtue of the SFO, he is deemed to be interested in the 325,570,000 shares held by Dragon and the 69,100,000 shares are owned by Ms. Ip Mei Hing, the spouse of Dr. Cheng Kar Shun.*

4. *Dato' Dr. Cheng Yu Tung is interested in the entire issued share capital of Chow Tai Fook Nominee Limited ("**CTF**"). By virtue of the SFO, he is deemed to be interested in the 493,972,602 shares held by CTF. The 493,972,602 shares held by CTF represents 220,000,000 shares and 273,972,602 underlying shares.*

Save as disclosed above and those disclosed under "Directors' interests", the Company had not been notified of other interests representing 5% or more of the issued share capital of the Company as at March 31, 2010.

As at March 31, 2010, the Company had not been notified of any short positions being held by any substantial shareholder in shares or underlying shares of the Company, which are required to be recorded in the register required to be kept under Section 336 of Part XV of the Securities and Futures Ordinance.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the year and up to the date of this report, to the best knowledge of the Directors, none of the Directors and their respective associates were considered to have any interests in the businesses which compete or were likely to compete, either directly or indirectly, with the businesses of the Group, other than those businesses where the Directors were appointed as directors to represent the interests of the Company and/or the Group.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Apart from those disclosed in the section headed "Connected Transaction", no contracts of significance to which the Company, its ultimate holding company or any subsidiaries of its ultimate holding company was a part in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for re–election at the forthcoming annual general meeting has an unexpired service contract with the Company or any of its subsidiaries which is not determinable by the employing company within one year without payment of compensation, other than statutory compensation.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the businesses of the Company were entered into or existed during the year.

SHARE OPTION SCHEME

Under the share option scheme adopted by the Company on August 28, 2002 (the "**Option Scheme**"), options were granted to certain directors, employees and other eligible participants of the Company entitling them to subscribe for shares of HK$0.02 each in the capital of the Company.

The following is a summary of the terms of the Option Scheme:

1 Purpose

The purpose of the Option Scheme is to provide incentives or rewards for the contribution of the participants to the Group and to enable the Group to recruit and/to retain high–calibre employees and attract human resources that are valuable to the Group.

2 Participants

The participants of the Option Scheme include any director, employee, consultant, agent or advisor of the Group or any entity in which the Group holds an interest.

3 Number of shares available for issue

Under the Option Scheme, the total number of shares which might be issued under options to be granted was 248,071,236 which represented approximately 4.06% of the issued share capital of the Company as at March 31, 2010.

4 Maximum entitlement of each participant

The total number of shares issued and to be issued upon exercise of the options granted to each participant (including exercised, cancelled and outstanding options) in any 12–month period must not exceed 1% of the shares of the Company in issue unless separately approved by the shareholders in general meeting.

5 Option period

An option may be exercised in accordance with the terms of the Option Scheme at any time during the period to be notified by the directors to the grantee, but in any event such period of time must not be more than 10 years from the date of grant.

6 Vesting period

The directors may, if consider appropriate, determine the minimum period for which an option must be held before it can be exercised.

7 Amount payable on acceptance of option

Upon acceptance of the offer for an option, the grantee shall pay HK$1.00 as consideration for the grant.

8 Exercise price

The subscription price for a share in respect of any option granted shall be a price determined by the directors at their absolute discretion but shall be at least the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the offer date, (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for 5 trading days immediately preceding the offer date; and (iii) the nominal value of a share.

9 Remaining life of the scheme

The Option Scheme is valid and effective for a term of 10 years commencing from August 28, 2002.

Details of the movement in outstanding share options, which have been granted under the Option Scheme, during the year are as follows:

					Number of shares subject to options				
Name or category of participant	**Date of grant**	**Exercise price**	**Exercise period**	**Vesting period**	**As at April 1, 2009**	**Granted during the year ended March 31, 2010**	**Cancelled/ lapsed during the year**	**Exercised during the year**	**As at March 31, 2010**
		HK$						(Note 4)	
Director									
Mr. Lo Lin Shing, Simon	26–03–2008	7.2840	26–03–2008 to 25–03–2010	N/A	690,000	–	690,000	–	–
Employees and others in aggregate (including a director of certain subsidiaries)	01-03-2005	0.1695	01-03-2005 to 28-02-2012	01-03-2005 to 31-08-2005	670	–	–	–	670
	15-02-2006	0.1640	15-02-2006 to 16-04-2009	N/A	200	–	200	–	–
	23-04-2007	4.6200	23-04-2007 to 01-04-2009	N/A	1,150,000	–	1,150,000	–	–
	26-03-2008	7.2840	26-03-2008 to 25-03-2010	N/A	2,000,000	–	2,000,000	–	–
	18-08-2008	6.1420	18-08-2008 to 17-08-2010	N/A	250,000	–	–	–	250,000
	02-02-2009	2.1340	02-02-2009 to 01-02-2012	N/A	3,000,000	–	–	100,000	2,900,000
	06-02-2009	2.2200	06-02-2009 to 05-02-2011	N/A	3,000,000	–	–	–	3,000,000
	01-04-2009	2.3580	01-04-2009 to 31-03-2011	N/A	–	500,000 (Note 1)	–	–	500,000
	13-08-2009	2.8900	13-08-2009 to 12-08-2011	N/A	–	2,000,000 (Note 2)	–	–	2,000,000
	13-11-2009	4.1700	13-11-2009 to 12-11-2011	N/A	–	2,000,000 (Note 3)	–	–	2,000,000
					10,090,870	**4,500,000**	**3,840,200**	**100,000**	**10,650,670**

Notes:

(1) On April 1, 2009, 500,000 share options were granted to the employees of the Company under the Option Scheme. The average closing price of the Company's share for the five business days immediately before the date of grant was HK$2.358. The closing price of the Company's share on April 1, 2009, being the date of grant, was HK$2.24. The closing price of the Company's share on March 31, 2009, being the trading day immediately before the grant of the share options, was HK$2.24.

(2) On August 13, 2009, 2,000,000 share options granted to an employee of the Company under the Option Scheme. The average closing price of the Company's share for the five business days immediately before the date of grant was HK$2.868. The closing price of the Company's shares on August 13, 2009, being the date of grant, was HK$2.89. The closing price of the Company's shares on August 12, 2009, being the trading day immediately before the grant of the share options, was HK$2.84.

(3) On November 13, 2009, 2,000,000 share options granted to an employee under the Option Scheme. The average closing price of the Company's share for the five business days immediately before the date of grant was HK$3.756. The closing price of the Company's shares on November 13, 2009, being the date of grant, was HK$4.17. The closing price of the Company's shares on November 12, 2009, being the trading day immediately before the grant of the share options, was HK$4.18.

(4) The weighted average closing price of the Company's shares immediately before the dates on which the share options were exercised during the year was HK$4.07.

CONNECTED TRANSACTION

Pursuant to Chapter 14A of the Listing Rules, the following connected transaction require disclosure in the annual report of the Company:

Disposal of the entire issued share capital of Glory Key Investments Limited and the sales loan

On December 11, 2009, the Company announced that Glory Key Investments Limited, an indirect wholly–owned subsidiary of MEC, entered into an agreement with Vision Values Holdings Limited (Stock Code 862). As Vision Values Holdings Limited is a connected person of MEC, which is an associate of Mr. Lo Lin Shing, Simon, the disposal constituted a connected transaction on the part of MEC under Chapter 14A of the Listing Rules.

Under the agreement, the consideration of the transaction was (a) HK$50 million cash (subject to adjustment) and (b) HK$46 million loan note with 4% interest rate per annum, the maturity of 2 years.

The disposal Glory Key Investments Limited was in line of the business strategy of the Company. The transaction was approved by the independent shareholders at the special general meeting on February 25, 2010. The transaction was completed on March 1, 2010.

GROUP'S BORROWINGS

Details of the Group's borrowings are set out in notes 26 and 27 to the financial statements.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

PRE–EMPTIVE RIGHTS

There are no provisions for pre–emptive rights under the Company's Bye–laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

AUDIT COMMITTEE

The audit committee of the Company currently comprises Mr. Lau Wai Piu, Mr. Peter Pun and Mr. Tsui Hing Chuen, William who are the Independent Non–Executive Directors of the Company. Their principal duties include reviewing and supervising the Company's financial reporting process, internal control procedures and relationship with the Company's independent auditor.

The audited financial statements for the year ended March 31, 2010 have been reviewed by the audit committee.

HUMAN RESOURCES

As at March 31, 2010, the Group employed a total of 284 employees (as at March 31, 2009: 255) in Mainland China, Hong Kong and Mongolia. Remuneration packages are structured to take into account the level and composition of pay and the general market conditions in the respective geographical locations and businesses in which the Group operates. The remuneration policies of the Group are reviewed on periodic basis. Apart from retirement schemes, year-end bonuses and share options are awarded to the employees according to the assessment of individual performance and industry practice. Appropriate training programs are also offered for staff training and development.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed public float under the Listing Rules.

INDEPENDENT AUDITOR

The financial statements have been audited by Deloitte Touche Tohmatsu who will retire and, being eligible, offer themselves for re–appointment.

POST BALANCE SHEET EVENT

Details of the significant event subsequent to the balance sheet date are set out in note 37 to the financial statements.

On behalf of the Board

Lo Lin Shing, Simon
Chairman

Hong Kong, July 16, 2010

Deloitte.
德勤

TO THE SHAREHOLDERS OF MONGOLIA ENERGY CORPORATION LIMITED
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Mongolia Energy Corporation Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 57 to 110, which comprise the consolidated statement of financial position as at March 31, 2010 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at March 31, 2010 and of the Group’s loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Without qualifying our opinion, we draw attention to note 17(b) to the consolidated financial statements. The Group owns an exploration concession of approximately HK$286 million in western Mongolia for iron ore which may be revoked as a result of the enactment of the Mining Prohibition Law (the “MPL”) on July 16, 2009. According to the MPL, the affected license holders, including the Group, are to be compensated but the details of the compensation are not currently available. If the Group’s exploration concession is revoked due to the MPL and the compensation received by the Group is significantly less than the consideration the Group paid to acquire this concession, the Group would incur a significant impairment loss on the related exploration and evaluation assets. The ultimate outcome of this matter cannot presently be determined and no provision for an impairment, if any, that may result has been made in the consolidated financial statements.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
July 16, 2010

Consolidated Income Statement

For the year ended March 31, 2010

	Notes	2010 HK$'000	2009 HK$'000
Continuing operation			
Revenue – coal mining	6	–	–
Other income	6	–	9,076
Interest income		2,274	18,980
Staff costs		(63,235)	(46,903)
Depreciation		(24,177)	(17,466)
Other expenses		(96,936)	(77,947)
Finance costs	7	(91,556)	(171,877)
Fair value loss on investment properties	14	(10,689)	(16,062)
Fair value gain (loss) from held-for-trading investments		72,814	(24,039)
Impairment losses on interests in and loans to associates	18	(2,457)	(56,766)
Impairment loss on available-for-sale financial asset	19	(3,024)	–
Share of losses of associates	18	(31,535)	(3,170)
Loss on early redemption of loan note	27	–	(100,371)
Loss before taxation	8	(248,521)	(486,545)
Income tax credit	9	–	66,506
Loss for the year from continuing operation		(248,521)	(420,039)
Discontinued operation			
Loss for the year from discontinued operation	10	(68,884)	(18,348)
Loss for the year		(317,405)	(438,387)
Loss for the year attributable to owners of the Company		(317,405)	(438,387)
Loss per share	12		
From continuing and discontinued operations			
– basic (HK cents)		(5.22)	(7.25)
– diluted (HK cents)		(5.22)	(7.25)
From continuing operation			
– basic (HK cents)		(4.08)	(6.95)
– diluted (HK cents)		(4.08)	(6.95)
From discontinued operation			
– basic (HK cents)		(1.14)	(0.30)
– diluted (HK cents)		(1.14)	(0.30)

Consolidated Statement of Comprehensive Income

For the year ended March 31, 2010

	2010 HK$'000	2009 HK$'000
Loss for the year	**(317,405)**	(438,387)
Other comprehensive income (expense)		
Exchange difference arising on translation	**31,025**	(63,352)
Total comprehensive expense for the year	**(286,380)**	(501,739)

Consolidated Statement of Financial Position

At March 31, 2010

	Notes	2010 HK$'000	2009 HK$'000
Non-current assets			
Property, plant and equipment	13	**94,314**	224,456
Investment property	14	**94,278**	104,046
Intangible assets	15	**877**	809
Development in progress	16	**1,090,494**	738,941
Exploration and evaluation assets	17	**13,189,727**	12,758,720
Interests in associates	18	**41,599**	67,678
Available-for-sale financial asset	19	**–**	–
Other assets		**1,150**	1,150
Loan note receivable	20	**37,667**	–
Prepayments for exploration and evaluation expenditure	21	**22,042**	54,050
Deposits for property, plant and equipment and other long-term deposits	22	**63,556**	170,527
Amount due from an associate	18	**200,000**	200,000
		14,835,704	14,320,377
Current assets			
Other receivables, prepayments and deposits		**164,094**	31,986
Held-for-trading investments	23	**45,207**	28,742
Amounts due from associates	18	**3,654**	5,275
Cash and cash equivalents	24	**121,299**	660,889
		334,254	726,892
Current liabilities			
Accounts payable	25	**8,110**	1,049
Other payables and accruals		**49,244**	18,482
Convertible note	26	**140,232**	–
Loan note	27	**112,969**	–
Amount due to an associate	18	**624**	5,510
Tax payable		**–**	5,301
		311,179	30,342
Net current assets		**23,075**	696,550
Total assets less current liabilities		**14,858,779**	15,016,927
Non-current liabilities			
Convertible notes	26	**1,709,801**	1,647,166
Loan note	27	**–**	110,468
		1,709,801	1,757,634
Net assets		**13,148,978**	13,259,293
Capital and reserves			
Share capital	29	**122,058**	120,964
Reserves		**13,026,863**	13,138,272
Equity attributable to the owners of the Company		**13,148,921**	13,259,236
Minority interests		**57**	57
Total equity		**13,148,978**	13,259,293

The consolidated financial statements on pages 57 to 110 were approved and authorized for issue by the Board of Directors on July 16, 2010 and are signed on its behalf by:

Lo Lin Shing, Simon
DIRECTOR

Yvette Ong
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended March 31, 2010

	Attributable to owners of the Company									
	Share capital HK$'000	**Share premium** HK$'000	**Contributed surplus** HK$'000	**Capital reserve** HK$'000	**Share options reserve** HK$'000	**Translation reserve** HK$'000	**Retained profits (accumulated losses)** HK$'000	**Total** HK$'000	**Minority interests** HK$'000	**Total** HK$'000
Balance at April 1, 2008	120,945	9,132,405	199,594	3,529,218	8,225	(1,035)	105,713	13,095,065	57	13,095,122
Exchange differences arising on translation	–	–	–	–	–	(63,352)	–	(63,352)	–	(63,352)
Loss for the year	–	–	–	–	–	–	(438,387)	(438,387)	–	(438,387)
Total comprehensive expense for the year	–	–	–	–	–	(63,352)	(438,387)	(501,739)	–	(501,739)
Equity settled share-based payments	–	–	–	–	6,572	–	–	6,572	–	6,572
Convertible note equity component	–	–	–	654,948	–	–	–	654,948	–	654,948
Issue of shares										
– Exercise of share options	19	5,987	–	–	(1,616)	–	–	4,390	–	4,390
Balance at March 31, 2009 and April 1, 2009	120,964	9,138,392	199,594	4,184,166	13,181	(64,387)	(332,674)	13,259,236	57	13,259,293
Exchange differences arising on translation	**–**	**–**	**–**	**–**	**–**	**31,025**	**–**	**31,025**	**–**	**31,025**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**(317,405)**	**(317,405)**	**–**	**(317,405)**
Total comprehensive income (expense) for the year	**–**	**–**	**–**	**–**	**–**	**31,025**	**(317,405)**	**(286,380)**	**–**	**(286,380)**
Equity settled share-based payments	**–**	**–**	**–**	**–**	**6,660**	**–**	**–**	**6,660**	**–**	**6,660**
Issue of shares										
– Acquisition of an exploration right	**1,092**	**168,100**	**–**	**–**	**–**	**–**	**–**	**169,192**	**–**	**169,192**
– Exercise of share options	**2**	**311**	**–**	**–**	**(100)**	**–**	**–**	**213**	**–**	**213**
Balance at March 31, 2010	**122,058**	**9,306,803**	**199,594**	**4,184,166**	**19,741**	**(33,362)**	**(650,079)**	**13,148,921**	**57**	**13,148,978**

Consolidated Statement of Cash Flows

For the year ended March 31, 2010

	Notes	2010 HK$'000	2009 HK$'000
Operating activities			
Loss before taxation from continuing and discontinued operations		**(317,405)**	(504,893)
Interest income		**(2,274)**	(19,072)
Finance costs		**91,556**	171,877
Write off of property, plant and equipment		**–**	836
Write off of intangible assets		**23**	2
Write off of prepayments for exploration and evaluation expenditure		**3,174**	–
Loss on disposal of property, plant and equipment		**39**	–
Loss on disposal of a subsidiary	31	**4,800**	–
Share of losses of associates		**31,535**	3,170
Amortisation of intangible asset		**423**	224
Depreciation		**32,034**	24,644
Exploration related expense previously recognised as long term deposit and prepayment		**1,720**	–
Fair value loss on investment properties		**10,689**	16,062
Fair value (gain) loss from held-for-trading investments		**(72,814)**	24,039
Impairment loss on aircraft		**24,333**	–
Impairment losses on interests in and loans to associates		**2,457**	56,766
Impairment loss on deposit paid for acquisition of aircraft		**23,649**	–
Impairment loss on available-for-sale financial asset		**3,024**	–
Loss on early redemption of loan note		**–**	100,371
Share-based compensation expenses		**6,660**	6,572
Operating cash flows before movements in working capital		**(156,377)**	(119,402)
Increase in other receivables, prepayments and deposits		**(53,598)**	(18,920)
Decrease in held-for-trading investments		**56,349**	1,602
Decrease in accounts payable, other payables and accruals		**(1,193)**	(16,218)
Advance from associates		**(2,007)**	(3,388)
Net cash used in operations		**(156,826)**	(156,326)
Tax paid – Hong Kong profits tax		**(5,301)**	(907)
Net cash used in operating activities		**(162,127)**	(157,233)
Investing activities			
Purchase of property, plant and equipment		**(16,023)**	(41,022)
Purchase of investment property		**–**	(104,046)
Proceeds from disposal of investment properties		**–**	515,735
Proceeds from sale of property, plant and equipment		**448**	–
Development in progress additions		**(237,741)**	(641,361)
Net cash outflow from acquisition of an exploration right through acquisition of subsidiaries		**(77,485)**	–
Exploration and evaluation asset additions		**(92,637)**	(94,184)
Intangible asset additions		**(514)**	(701)
Deposits for property, plant and equipment		**(1,320)**	(90,962)
Acquisition of associates		**–**	(56,771)
Capital contribution to associates		**(6,293)**	(28,444)
Available-for-sale financial asset additions	19	**(3,024)**	–
Disposal of a subsidiary	31	**48,694**	–
Advance to associates		**–**	(6,258)
Bank interest received		**1,997**	19,072
Net cash used in investing activities		**(383,898)**	(528,942)

	Notes	2010 HK$'000	2009 HK$'000
Financing activities			
Repayment of borrowings		–	(197,900)
Proceeds received from exercise of share options		213	4,390
Proceeds received from issue of zero coupon convertible note		–	2,000,000
Early redemption of loan note		–	(687,500)
Interest paid on bank and other borrowings		–	(772)
Interest paid on loan note		–	(19,537)
Net cash generated from financing activities		213	1,098,681
Net (decrease) increase in cash and cash equivalents		(545,812)	412,506
Cash and cash equivalents at beginning of the year		660,889	254,341
Effect of foreign exchange rate changes		6,222	(5,958)
Cash and cash equivalents at end of the year		121,299	660,889

1. GENERAL

The Company is a public limited liability company incorporated in Bermuda. The address of its principal place of business is 40/F and 41/F New World Tower 1, 16-18 Queen's Road Central, Hong Kong. The Company is listed on the Main Board of The Stock Exchange of Hong Kong Limited.

The Company acts as an investment holding company and its subsidiaries (together with the Company collectively referred to as the "Group") are principally engaged in energy and related resources and provision of charter flight services. During the year ended March 31, 2010, the Group discontinued the provision of charter flight services as set out in note 10.

The consolidated financial statements are presented in Hong Kong dollars. The functional currency of the Company was Hong Kong dollars until March 1, 2010, in such date the Company discontinued the provision of charter flight services and the functional currency of the Company become United States Dollars ("US$") as US$ better reflects the underlying transactions, event and condition that are relevant to the Group. For the convenience of the financial statements users, the consolidated financial statements are presented in Hong Kong dollars, as the Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited,

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following new and revised Standards, Amendments and Interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"):

HKAS 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Costs
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC) – Int 9 & HKAS 39 (Amendments)	Embedded Derivatives
HK(IFRIC) – Int 13	Customer Loyalty Programmes
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC) – Int 18	Transfers of Assets from Customers
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning on or after July 1, 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

In addition, in the current year, the Group has elected to early adopt the amendment to HKFRS 5 as part of Improvements to HKFRSs 2009 (adopted in advance of effective date January 1, 2010).

Except as described below, the adoption of the new and revised HKFRSs has had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

New and revised HKFRSs affecting presentation and disclosure only

HKAS 1 (Revised 2007) *Presentation of Financial Statements*

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the consolidated financial statements) and changes in the format and content of the consolidated financial statements.

HKFRS 8 *Operating Segments*

HKFRS 8 is a disclosure standard that has resulted in a redesignation of the Group's operating segments (see Note 6) but no changes in the basis of measurement of segment profit or loss, segment assets and segment liabilities.

In the past, the Group's primary reporting format was business segments by location of assets. The application of HKFRS 8 has resulted in a redesignation of the Group's operating segments as compared with the primary segments determined in accordance with the predecessor standard (HKAS 14, *Segment Reporting*).

Improving Disclosures about Financial Instruments
(Amendments to HKFRS 7 *Financial Instruments: Disclosures*)

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The Group has not provided comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments.

Early adoption of amendment to HKFRS 5 as part of Improvements to HKFRSs 2009

The amendment has clarified that HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* has specified the disclosure required in respect of disposal groups classified as discontinued operations. Disclosures requirements in other HKFRSs do not generally apply to such disposal groups.

The Group has not early applied the following new and revised Standards, Amendments or Interpretations that have been issued but are not yet effective:

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009, except for HKFRS 5[2]
HKFRSs (Amendments)	Improvements to HKFRSs 2010[4]
HKAS 24 (Revised)	Related Party Disclosures[7]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
HKAS 32 (Amendment)	Classification of Rights Issues[5]
HKAS 39 (Amendment)	Eligible Hedged Items[1]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[3]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[6]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[3]
HKFRS 3 (Revised)	Business Combinations[1]
HKFRS 9	Financial Instruments[8]
HK(IFRIC)-Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[7]
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners[1]
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments[6]

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

1 Effective for annual periods beginning on or after July 1, 2009
2 Amendments that are effective for annual periods beginning on or after July 1, 2009 and January 1, 2010, as appropriate
3 Effective for annual periods beginning on or after January 1, 2010
4 Effective for annual periods beginning on or after July 1, 2010 and January 1, 2011, as appropriate
5 Effective for annual periods beginning on or after February 1, 2010
6 Effective for annual periods beginning on or after July 1, 2010
7 Effective for annual periods beginning on or after January 1, 2011
8 Effective for annual periods beginning on or after January 1, 2013

The application of HKFRS 3 (Revised) may affect the Group's accounting for business combinations for which the acquisition date is on or after April 1, 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary.

HKFRS 9 *Financial Instruments* introduces new requirements for the classification and measurement of financial assets and will be effective to the Group from April 1, 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

The directors of the Group anticipate that the application of the other new and revised Standards, Amendments or Interpretations will have no material impact on the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for investment property and certain financial instruments which are measured at fair value as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Interests in associates

An associate is an entity over which the investor has significant influence which is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associates, less any identified impairment loss. When the Group's share of losses in an associate equals or exceeds its interest in the associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

The Group discontinues the use of the equity method from the date that it ceases to have significant influence over an associate and accounts for the investment in accordance with HKAS 39 from that date, provided the associate does not become a subsidiary or a joint venture. The carrying amount of the investment at the date that it ceases to be an associate is regarded as its deemed cost on initial measurement as a financial asset in accordance with HKAS 39.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of discounts.

(a) Rental and management fee income

Rental income is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease.

Management fee income is recognised when services are provided.

(b) Charter flight income

Charter flight income is recognised when transportation services are rendered.

(c) Interest income

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated at cost less subsequent accumulated depreciation and impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Intangible assets acquired separately

Software acquired separately and with finite useful lives is carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation of intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the assets and are recognised in the consolidated income statement when the asset is derecognised.

Prepayments for exploration and evaluation expenditure

Prepayments for exploration and evaluation expenditure, pending exploration work to be performed, are stated at cost and are recognised as exploration and evaluation assets when work has been performed.

Development in progress

Development in progress includes the construction cost of a road of which the Group has a right of use. Development in progress is carried at cost less any recognised impairment losses. Development in progress is transferred to intangible assets with finite useful lives when the road construction work is completed and the road is ready for its intended use.

Exploration and evaluation assets

Exploration and evaluation assets are recognised at cost on initial recognition. Subsequent to initial recognition, exploration and evaluation assets are stated at cost less any accumulated impairment losses. Exploration and evaluation assets include the cost of mining and exploration rights and the expenditures incurred in the search for mineral resources as well as the determination of the technical feasibility and commercial viability of extracting those resources. When the technical feasibility and commercial viability of extracting mineral resources become demonstrable, previously recognised exploration and evaluation assets are reclassified as either intangible assets or other fixed assets. These assets are assessed for impairment before reclassification.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of exploration and evaluation assets

The carrying amount of the exploration and evaluation assets is reviewed annually and adjusted for impairment in accordance with HKAS 36 *Impairment of Assets* whenever one of the following events or changes in circumstances indicate that the carrying amount may not be recoverable (the list is not exhaustive):

- the period for which the Group has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the Group has decided to discontinue such activities in the specific area; or
- sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

An impairment loss is recognised in the consolidated income statement whenever the carrying amount of an asset exceeds its recoverable amount.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. Gains or losses arising from changes in the fair value of the investment property are included in consolidated income statement for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the year in which the item is derecognised.

Impairment losses on tangible and intangible assets (excluding exploration and evaluation assets)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease.

The Group as lessee

Rentals payable under operating leases are charged to consolidated income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases, except for those classified as investment properties accounted for under the fair value model.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transaction. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in consolidated income statement in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company’s net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income and accumulated in equity and will be reclassified from equity to consolidated income statement on disposal of the foreign operation.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group not denominated in functional currency of Hong Kong dollars are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the translation reserve). Such exchange differences in relation to foreign operation are recognised in consolidated income statement in the period in which the foreign operation is disposed of.

Functional currency of a group entity is changed only if there is a change to the underlying transactions, events and conditions relevant to the entity. The effect of a change in the translation functional currency is accounted for prospectively. At the date of change, the entity translates all items into the new functional currency using the prevailing exchange rate at that date and the resulting translated amounts for non-monetary items are treated as the historical cost.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in consolidated income statement in the period in which they are incurred.

Retirement benefits costs

Payments to the Mandatory Provident Fund Scheme ("MPF Scheme") are charged as an expense when employees have rendered service entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income and expense that are taxable or deductible in other years and it further excludes items that are never taxable nor deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in consolidated income statement, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value or deemed cost. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in consolidated income statement.

Financial assets

The Group's financial assets are classified into one of the three categories, including held-for-trading investments, available-for-sale financial assets and loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments.

Held-for-trading investments

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or

- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

Subsequent to initial recognition, held for trading investments are measured at fair value, with changes in fair value recognised directly in the consolidated income statement in the period in which they arise. The net gain or loss recognised in consolidated income statement includes any dividend or interest earned on the financial assets.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve until the financial asset is disposed of or determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to consolidated income statement.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment of financial assets below).

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including other receivables, loan note receivable, amounts due from associates and cash and cash equivalents) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Impairment of financial assets

Financial assets, other than held-for-trading investments, are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or

- default or delinquency in interest or principal payments; or

- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For financial assets carried at amortised cost, an impairment loss is recognised in consolidated income statement when there is objective evidence that the asset is impaired and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of amounts due from associates, where the carrying amount is reduced through the use of an allocation account. Changes in the carrying amount of the allowance account are recognised in consolidated income statement. When an amount due from associate is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to consolidated income statement.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through consolidated income statement to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis for debt instrument.

Convertible notes

Convertible notes issued by the Company that contain both liability and conversion option components are classified separately into the respective items on initial recognition. A conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity *(Continued)*

Convertible notes (Continued)

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. For the convertible note issued in connection with the acquisition of the mining and exploration rights set out in note 17, the conversion option component is recognised at fair value and included in equity (capital reserve). For other convertible notes, the difference between the gross proceeds of the issue of the convertible notes and the fair value assigned to the liability component, representing the conversion option for the holder to convert the notes into equity, is included in equity (capital reserve).

In subsequent periods, the liability component of the convertible notes is carried at amortised cost using the effective interest method. The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in the capital reserve until the embedded option is exercised (in which case the balance stated in the capital reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in capital reserve will be released to retained profits (accumulated losses). No gain or loss is recognised in consolidated income statement upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible notes using the effective interest method.

Other financial liabilities

Other financial liabilities including accounts payable, other payables, amount due to an associate and loan note are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in consolidated income statement.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently measured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in other comprehensive income is recognised in consolidated income statement.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in consolidated income statement.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

Equity-settled share-based payment transactions

Share options granted to employees after November 7, 2002 and vested on or after April 1, 2005

The fair value of services received is determined by reference to the fair value of share options granted at the grant date. For share options which are vested at the date of grant, the fair value of the shares options granted is expensed immediately to consolidated income statement.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to the share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

Share options granted to employees after November 7, 2002 and vested before April 1, 2005

The financial impact of share options granted is not recorded in the consolidated financial statements until such time as the options are exercised, and no charge is recognised in the consolidated income statement in respect of the value of options granted. Upon the exercise of the share options, the resulting shares issued are recorded as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded as share premium. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

Equity instruments granted for acquisitions of assets

Equity instruments (shares and conversion options) issued in exchange for goods or services are measured at the fair values of the goods or services received, unless that fair value cannot be reliably measured, in which case the goods or services received are measured by reference to the fair value of the equity instruments granted. The fair values of the goods or services received are recognised as expenses immediately, unless the goods or services qualify for recognition as assets.

4. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior years.

The capital structure of the Group consists of debt, which include loan note disclosed in note 27, convertible notes disclosed in note 26 and equity attributable to owners of the Company, comprising share capital and reserves.

The management of the Group reviews the capital structure regularly, taking into account the cost and risk associated with the capital. The Group will then balance its capital structure through the payment of dividends, new shares issues as well as the issue of new debt or the redemption of the existing debt.

5. FINANCIAL INSTRUMENTS

5a. Categories of financial instruments

	2010 HK$'000	2009 HK$'000
Financial assets		
Loans and receivables (including bank balances and cash)	302,740	684,401
Available-for-sale financial asset	–	–
Held-for-trading investments	45,207	28,742
Financial liabilities		
Measured at amortised cost	2,019,672	1,781,836

5. FINANCIAL INSTRUMENTS *(Continued)*

5b. Financial risk management objectives and policies

The Group's financial instruments include other receivables, loan note receivable, held-for-trading investments, amounts due from/to associates, cash and cash equivalents, accounts payable, other payables, convertible notes and a loan note. Details of the financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risks), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. There has been no significant change to the Group's exposure to market risks or the manner in which it manages and measures the risk. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manners.

Market risk

(i) Currency risk

The Group mainly operates in Hong Kong, Mainland China and Mongolia and the exposure in exchange rate risk mainly arises from loan note receivable, other receivables, held-for-trading investments, amount due from an associate, bank balances, accounts payable and other payables denominated in foreign currencies.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong Dollars ("HK$")	**4,296**	–	**96,722**	–
United States Dollars ("US$")	**–**	728	**–**	6,018
Renminbi ("RMB")	**6,156**	1	**77**	1,523
Mongolian Tugrik ("MNT")	**2,543**	847	**1,546**	316

The Group does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Sensitivity analysis

The currency risk on HK$ is insignificant as the HK$ is pegged with the US$.

The management considers the currency risk on RMB and MNT is insignificant and therefore no sensitivity analysis on such risk has been prepared.

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate loan note receivable (see Note 20) and fixed-rate borrowings, such as convertible notes and a loan note (see Notes 26 and 27 for details of these borrowings). The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances (see Note 24 for details).

The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider other necessary action when significant interest rate exposure is anticipated.

5. FINANCIAL INSTRUMENTS *(Continued)*

5b. Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

(ii) Interest rate risk (Continued)

The Group's cash flow interest rate risk is mainly due to the fluctuation of the prevailing time deposit rate on bank balances arising from the Group's Hong Kong Dollar denominated bank balances.

Sensitivity analysis

The sensitivity analysis on the exposure to the Group's cash flow interest rate risk has not been performed as the management considers that the exposure to these risks are insignificant.

(iii) Other price risk

The Group is exposed to equity price risk through its investments in listed equity securities. Management regularly reviews the expected returns from holding these investments on an individual basis.

The Group's equity price risk is mainly concentrated on equity instruments operating in the network security and service industry.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks at the end of the reporting period for held-for-trading investments.

If the listed share prices of the respective equity instruments had been 5% higher/lower, the loss for the year ended March 31, 2010 would decrease/increase by HK$2,260,000 (2009: Loss would decrease/increase by HK$1,437,000) as a result of the changes in fair value of held-for-trading investments.

Credit risk

As at March 31, 2010, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantees provided by the Group is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the Group reviews the recoverable amount of each individual debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group is exposed to concentration of credit risk on amounts due from associates. At March 31, 2010, the amounts due from associates represent advances granted to two associates. The failure of these associates to make the required payment could have a substantial negative impact on the Group's results and liquidity. In order to minimise the credit risk, management of the Group has established procedures to monitor the business operation and financial position of the associates. In addition, the Group reviews the balance with these associates at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Other than concentration risk on liquid funds which are deposited with banks that have good credit ratings and the concentration mentioned above, the Group does not have any other significant credit risk.

5. FINANCIAL INSTRUMENTS *(Continued)*

5b. Financial risk management objectives and policies *(Continued)*

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of the financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

2010

	Less than 1 month HK$'000	1-3 months HK$'000	3 months to 1 year HK$'000	1-5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at March 31, 2010 HK$'000
Accounts payable	8,110	–	–	–	8,110	8,110
Other payables	6,057	2,878	39,000	–	47,935	47,935
Amount due to an associate	624	–	–	–	624	624
Convertible note (Note 26)	–	–	155,325	–	155,325	140,232
Zero coupon convertible note (Note 26)	–	–	–	2,000,000	2,000,000	1,709.801
Loan note (Note 27)	–	–	115,000	–	115,000	112,969
	14,791	2,878	309,325	2,000,000	2,326,994	2,019,671

2009

	Less than 1 month HK$'000	1-3 months HK$'000	3 months to 1 year HK$'000	1-5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at March 31, 2009 HK$'000
Accounts payable	966	83	–	–	1,049	1,049
Other payables	7,086	10,557	–	–	17,643	17,643
Amount due to an associate	5,510	–	–	–	5,510	5,510
Convertible note (Note 26)	–	–	–	155,325	155,325	127,556
Zero coupon convertible note (Note 26)	–	–	–	2,000,000	2,000,000	1,519,610
Loan note (Note 27)	–	–	–	115,000	115,000	110,468
	13,562	10,640	–	2,270,325	2,294,527	1,781,836

5. FINANCIAL INSTRUMENTS *(Continued)*

5c. Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices; and

- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors consider that the carrying amounts of the Group's financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in an active market for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	2010			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Financial assets				
Held-for-trading				
– listed equity securities	45,207	–	–	45,207
Available-for-sale financial asset	–	–	–	–

There were no transfer between Level 1 and 2 in the current year.

6. REVENUE, OTHER INCOME AND SEGMENT INFORMATION

An analysis of the Group's revenue and other income for the year is as follows:

	2010 HK$'000	2009 HK$'000
Continuing operation		
Revenue – coal mining	–	–
Other income		
Rental income from investment properties	–	7,788
Management fee income from investment properties	–	1,288
	–	9,076

The Group has adopted HKFRS 8 *Operating Segments* with effect from April 1, 2009. HKFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (i.e. the Board of Directors of the Company) for the purpose of allocating resources to segments and assessing their performance. In contrast, the predecessor Standard (HKAS 14, *Segment Reporting*) required an entity to identify two sets of segments (business and geographical) using a risks and returns approach, with the entity's "system of internal financial reporting to key management personnel" serving only as the starting point for the identification of such segments. As a result, following the adoption of HKFRS 8, the Group's operating segments have changed.

In prior years, segment information reported externally was analysed on three operating divisions (i.e. coal mining, charter flight services and property investments). However, information reported to the Group's Board of Directors for the purposes of resource allocation and assessment of performance focuses on the coal mining and charter flight services segment. Information relating to property investment and iron ore exploration concession is not included in the internal report regularly reviewed by the Board of Directors of the Company.

The provision of charter flight services was discontinued with effect from March 1, 2010. The total segment revenue derived from the continuing and the discontinued operations is HK$2,392,000 (2009: HK$2,005,000) and total segment loss derived from the continuing and the discontinued operations is HK$135,776,000 (2009: HK$63,531,000).

6. REVENUE, OTHER INCOME AND SEGMENT INFORMATION *(Continued)*

Segment revenue and results

The following is an analysis of the Group's revenue and result by operating segment for continuing operation:

For the year ended March 31, 2010
Continuing operation

	Coal mining HK$'000	Total HK$'000
Segment revenue	–	–
Segment loss	(71,692)	(71,692)
Unallocated expenses (Note)		(112,656)
Bank interest income		2,274
Finance costs		(91,556)
Fair value loss on investment property		(10,689)
Fair value gain from held-for-trading investments		72,814
Impairment losses on interests in and loans to associates		(2,457)
Impairment loss on available-for-sale financial asset		(3,024)
Share of losses of associates		(31,535)
Loss before taxation		(248,521)

For the year ended March 31, 2009
Continuing operation

	Coal mining HK$'000	Total HK$'000
Segment revenue	–	–
Segment loss	(45,183)	(45,183)
Unallocated expenses (Note)		(97,133)
Rental and management fee income		9,076
Bank interest income		18,980
Finance costs		(171,877)
Fair value loss on investment property		(16,062)
Fair value loss from held-for-trading investments		(24,039)
Impairment losses on interests in and loans to associates		(56,766)
Share of losses of associates		(3,170)
Loss on early redemption of loan note		(100,371)
Loss before taxation		(486,545)

Note:
Unallocated expenses mainly include staff costs, office rental and legal and professional fees.

6. REVENUE, OTHER INCOME AND SEGMENT INFORMATION *(Continued)*

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 3. Segment loss represents the loss from the coal mining operation without allocation of expenses not directly relates to operating segments, rental and management fee income, bank interest income, loss on early redemption of loan note, change in fair value of investment property, impairment losses on interests in and loans to associates, impairment loss on available-for-sale financial asset, fair value gain (loss) from held-for-trading investments, finance costs and share of losses of associates. This is the measure reported to the chief operation decision maker for the purposes of resource allocation and performance assessment.

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by operating segment for continuing operation:

For the year ended March 31, 2010

	HK$'000
ASSETS	
Segment assets – coal mining	14,222,174
Investment property	94,278
Held-for-trading investments	45,207
Loan note receivable	37,667
Interests in associates	41,599
Amounts due from associates	203,654
Cash and cash equivalents	84,770
Other unallocated assets (Note)	440,609
Consolidated total assets	15,169,958
LIABILITIES	
Segment liabilities – coal mining	7,630
Convertible notes	1,850,033
Loan note	112,969
Other unallocated liabilities	50,348
Consolidated total liabilities	2,020,980

6. REVENUE, OTHER INCOME AND SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities *(Continued)*

For the year ended March 31, 2009

	Total HK$'000
ASSETS	
Segment assets – coal mining	13,675,699
Segment assets – charter flight services	267,881
	13,943,580
Investment property	104,046
Held-for-trading investments	28,742
Interests in associates	67,678
Amounts due from associates	205,275
Cash and cash equivalents	651,728
Other unallocated assets (Note)	46,220
Consolidated total assets	15,047,269
LIABILITIES	
Segment liabilities – coal mining	12,291
Segment liabilities – charter flight services	6,773
	19,064
Tax payable	5,301
Convertible notes	1,647,166
Loan note	110,468
Other unallocated liabilities	5,977
Consolidated total liabilities	1,787,976

Note:
Other unallocated assets mainly represent exploration right for iron ore (for the year ended March 31, 2010 only), property, plant and equipment, deposit for property, plant and equipment and other long term deposits not for coal mining and other receivables, prepayments and deposits.

Other segment information

For the year ended March 31

Amounts included in the measure of segment loss or segment assets:

Continuing operation – coal mining

	2010 **HK$'000**	2009 HK$'000
Capital additions (Note)	**491,172**	873,692
Depreciation of property, plant and equipment	**15,975**	11,014

Note: Capital additions to property, plant and equipment, development in progress, exploration and evaluation assets and intangible assets.

6. REVENUE, OTHER INCOME AND SEGMENT INFORMATION *(Continued)*

Geographical information

The Group's operations are principally located in Hong Kong, Mongolia and Mainland China.

The Group's information about its non-current assets in relation to continuing operation by geographical location of the assets are detailed below:

	Non-current assets	
	2010	2009
	HK$'000	HK$'000
Hong Kong	**13,628**	20,157
Mongolia	**14,431,643**	13,683,881
Mainland China	**152,766**	188,628
	14,598,037	13,892,666

Note:
Non-current assets excluded those relating to the discontinued operation and financial instruments.

7. FINANCE COSTS

	2010	2009
	HK$'000	HK$'000
Continuing operation		
Interest on borrowings wholly repayable within five years:		
Interest expense:		
– convertible notes (Note 26)	**202,867**	187,234
– loan note (Note 27)	**2,501**	32,913
– bank loans	**–**	772
Less: Interest expense capitalised (Note)	**(113,812)**	(49,042)
	91,556	171,877

Note:
Borrowing costs capitalised during the year represented a portion of the interest expense on the zero coupon convertible note and were calculated by applying a capitalization of 14.07% (2009: 14.22%) per annum to expenditure on road construction which is a qualifying asset.

8. LOSS BEFORE TAXATION

	2010 HK$'000	2009 HK$'000
Continuing operation		
Loss before taxation has been arrived at after charging:		
Directors' remuneration (Note 11)	**3,215**	3,135
Other staff costs:		
Salaries and other benefits	**58,878**	43,246
Retirement benefits scheme contributions (excluding directors' contributions)	**1,142**	522
Total staff costs	**63,235**	46,903
Auditor's remuneration	**2,004**	2,268
Amortisation on software (included in other expenses)	**423**	224
Depreciation of property, plant and equipment	**24,177**	17,466
Direct operating expenses arising from investment properties that generate rental income	**–**	2,204
Direct operating expenses arising from investment property that do not generate rental income	**11**	–
Net exchange losses (included in other expenses)	**443**	344
Operating lease rental in respect of office premises	**14,813**	12,411
Write off of property, plant and equipment	**–**	836
Write off of prepayments for exploration and evaluation expenditure	**3,174**	–

9. INCOME TAX CREDIT

The amount of tax credited to the consolidated income statement represents:

	2010 HK$'000	2009 HK$'000
Continuing operation		
Current income tax at Hong Kong tax rate of 16.5%	**–**	6,014
Overprovision for Hong Kong profits tax in prior year	**–**	(107)
	–	5,907
Deferred tax:		
– Current year	**–**	(68,278)
– Attributable to a change in tax rate	**–**	(4,135)
	–	(72,413)
Income tax credit	**–**	(66,506)

On June 26, 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 and reduced the corporate profits tax rate from 17.5% to 16.5% which was effective from the year of assessment 2008/09. Hong Kong profits tax is calculated at 16.5% at the estimated assessable profit (if any) for both years.

9. INCOME TAX CREDIT *(Continued)*

Mongolia corporate income tax is calculated at 10% at the estimated assessable profit (if any) for both years.

The Company is not subject to any taxation in Bermuda. Bermuda levies no tax on the income of the Group.

The taxation on the Group's loss before taxation differs from the theoretical amount that would arise using the tax rate of Hong Kong as follows:

	2010 HK$'000	2009 HK$'000
Loss before taxation from continuing operation	**(248,521)**	(486,545)
Calculated at a tax rate of 16.5%	**(41,006)**	(80,280)
Tax effect on income not subject to tax	**(12,397)**	(3,663)
Tax effect on expenses not deductible for tax purposes	**48,833**	87,671
Tax effect on tax loss not recognised	**2,652**	662
Reversal of previously recognised temporary differences	**–**	(72,413)
Overprovision in prior year	**–**	(107)
Effect of different taxation rate in other country	**1,918**	1,624
Income tax credit	**–**	(66,506)

10. DISCONTINUED OPERATION

On December 9, 2009, the Company entered into a sale and purchase agreement with Vision Values Holdings Limited ("VVH") to dispose of its entire interest in Glory Key Investments Limited ("Glory Key"), an indirect wholly owned subsidiary of the Company at a consideration of HK$96 million subject to change if there were net liabilities of Glory Key at the completion date. Mr Lo Lin Shing, Simon ("Mr Lo"), a director of the Company, is also a director and controlling shareholder of VVH. The consideration was satisfied by (i) cash of HK$48,694,000 (HK$50,000,000 net of change in net liabilities in Glory Key amounting to HK$1,306,000) and (ii) a loan note issued by VVH of HK$46,000,000 at 4% interest per annum with option entitled to issuers to redeem the loan note before maturity. The principal asset of Glory Key is a Gulfstream G200 aircraft and Glory Key engaged in the provision of charter flight services. The disposal was effected for the Group to focus its resources on its mining business. The disposal was completed on March 1, 2010, on which date control of Glory Key Investments Limited passed to VVH.

The loss for the year from the discontinued operation is analysed as follows:

	2010 HK$'000	2009 HK$'000
Loss on charter flight service operation for the year	**64,084**	18,348
Loss on disposal of charter flight service operation	**4,800**	–
	68,884	18,348

10. DISCONTINUED OPERATION *(Continued)*

The loss on charter flight service operation for the year is analysed as follows:

	2010 HK$'000	2009 HK$'000
Revenue	**2,392**	2,005
Direct aviation costs	**(870)**	(1,430)
Bank interest income	**–**	92
Depreciation	**(7,857)**	(7,178)
Impairment loss on aircraft	**(24,333)**	–
Impairment loss on deposit paid for acquisition of aircraft (Note)	**(23,649)**	–
Other expenses	**(9,767)**	(11,837)
	(64,084)	(18,348)

Note:

After the completion of the disposal of Glory Key, the management began to look for alternatives to terminate the contract for the acquisition of the Falcon 900EX aircraft, which had a contract value amounting to approximately HK$295,620,000. Onfield Group Limited, a wholly owned subsidiary of the Company, had already paid a total of approximately HK$147,804,000 to the seller pursuant to the aircraft acquisition agreement up to March 1, 2010. Based on the contract terms, management estimated that the termination cost would be 8% of the contract amount and hence an impairment loss of HK$23,649,000 was recognised against the deposit and the remaining deposit amounting approximately HK$124,155,000 were included in other receivables, prepayment and deposit as at March 31, 2010.

On May 12, 2010, Onfield Group Limited, received formal notice of termination of this acquisition from the seller. The liquidated damages amounting to HK$23,649,000 were forfeited by the seller and the remaining deposit was refunded and received in full on May 25, 2010.

Cash flows from discontinued operation

	2010 HK$'000	2009 HK$'000
Net cash outflows from operating activities	**(54,391)**	(98,587)
Net cash inflows (outflows) from investment activities	**48,311**	(3,184)
Net cash inflows from financing activities	**6,079**	95,554
Net cash outflows	**(1)**	(6,217)

11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The remuneration of each of the directors for the year ended March 31, 2010 is as follows:

Name of Director	Fees HK$'000	Salaries HK$'000	Other benefits HK$'000	Share based payments HK$'000	Employer's contribution to MPF Scheme HK$'000	Total HK$'000
Executive directors						
Lo Lin Shing, Simon	–	–	1,129	–	–	1,129
Liu Zhuo Wei	–	–	–	–	–	–
Yvette Ong	–	1,707	57	–	12	1,776
Non-executive director						
To Hin Tsun, Gerald	10	–	–	–	–	10
Independent non-executive directors						
Peter Pun	100	–	–	–	–	100
Lau Wai Piu	100	–	–	–	–	100
Tsui Hing Chuen, William	100	–	–	–	–	100
	310	1,707	1,186	–	12	3,215

The remuneration of each of the directors for the year ended March 31, 2009 is as follows:

Name of Director	Fees HK$'000	Salaries HK$'000	Other benefits HK$'000	Share based payments HK$'000	Employer's contribution to MPF Scheme HK$'000	Total HK$'000
Executive directors						
Lo Lin Shing, Simon	–	–	1,054	–	–	1,054
Liu Zhuo Wei	–	–	–	–	–	–
Yvette Ong	–	1,707	52	–	12	1,771
Non-executive director						
To Hin Tsun, Gerald	10	–	–	–	–	10
Independent non-executive directors						
Peter Pun	100	–	–	–	–	100
Lau Wai Piu	100	–	–	–	–	100
Tsui Hing Chuen, William	100	–	–	–	–	100
	310	1,707	1,106	–	12	3,135

During the two years, no director waived any directors' emoluments.

11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(b) Senior executives' emoluments

The five individuals whose emoluments were the highest in the Group for the year include no (2009: one, whose emoluments are reflected in the analysis presented above) director. The emoluments of the five (2009: remaining four) highest paid individuals during the year are as follows:

	2010 HK$'000	2009 HK$'000
Basic salaries, other allowances and benefits in kind	16,083	15,642
Contributions to MPF Scheme	41	24
Share based payments	6,169	6,032
	22,293	21,698

The emoluments fell within the following bands:

	Number of individuals	
Emolument bands	2010	2009
HK$1,500,001 – HK$2,000,000	1	1
HK$2,000,001 – HK$2,500,000	–	1
HK$4,000,001 – HK$4,500,000	2	–
HK$6,000,001 – HK$6,500,000	2	–
HK$8,500,001 – HK$9,000,000	–	1
HK$9,000,001 – HK$9,500,000	–	1
	5	4

(c) During the year, no emoluments have been paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

12. LOSS PER SHARE

The calculation of basic and diluted loss per share is based on the following data:

	2010 HK$'000	2009 HK$'000
Loss attributable to the owners of the Company, as used in the calculation of basic and diluted loss per share		
Loss from continuing and discontinued operations	(317,405)	(438,387)
Loss from continuing operation	(248,521)	(420,039)
Loss from discontinued operation	(68,884)	(18,348)

12. LOSS PER SHARE *(Continued)*

	2010	2009
	'000	'000
Number of shares		
Weighted average number of ordinary shares in issue for calculation of basic and diluted Loss per share	**6,085,327**	6,048,066

Note:

The diluted loss per share is the same as basic loss per share presented as there was no dilutive effect from the assumed exercise of share options and conversion of the Company's outstanding convertible notes on the loss attributable to owners of the Company.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings at the mining site HK$'000	**Leasehold improvements** HK$'000	**Computer equipment** HK$'000	**Furniture, fixtures and office equipment** HK$'000	**Plant, machinery and other equipment** HK$'000	**Motor vehicles** HK$'000	**Aircraft and engines** HK$'000	**Total** HK$'000
COST								
At April 1, 2008	56,665	12,087	4,573	3,802	4,740	11,645	143,568	237,080
Exchange adjustments	(5,152)	259	(55)	(17)	(1,312)	(385)	–	(6,662)
Additions	2,687	10,106	771	1,767	7,642	14,773	3,276	41,022
Written off	–	(1,531)	(15)	(251)	(3)	–	–	(1,800)
At March 31, 2009	54,200	20,921	5,274	5,301	11,067	26,033	146,844	269,640
Exchange adjustments	–	26	10	11	–	149	–	196
Additions	–	5,915	745	950	876	9,884	383	18,753
Written off	–	–	(21)	–	–	–	–	(21)
Disposals	–	–	–	–	–	(879)	–	(879)
Disposal of subsidiary	–	–	–	–	–	–	(122,894)	(122,894)
At March 31, 2010	**54,200**	**26,862**	**6,008**	**6,262**	**11,943**	**35,187**	**24,333**	**164,795**
ACCUMULATED DEPRECIATION AND IMPAIRMENT								
At April 1, 2008	1,417	1,639	2,117	362	143	1,863	15,669	23,210
Exchange adjustments	(1,269)	64	(49)	(29)	(187)	(236)	–	(1,706)
Charge for the year	4,968	5,559	1,089	1,267	805	3,778	7,178	24,644
Written off	–	(869)	(9)	(86)	–	–	–	(964)
At March 31, 2009	5,116	6,393	3,148	1,514	761	5,405	22,847	45,184
Exchange adjustments	–	17	4	4	–	22	–	47
Charge for the year	5,420	8,861	1,300	1,564	1,114	5,918	7,857	32,034
Written off	–	–	(21)	–	–	–	–	(21)
Impairment	–	–	–	–	–	–	24,333	24,333
Disposals	–	–	–	–	–	(392)	–	(392)
Disposal of subsidiary	–	–	–	–	–	–	(30,704)	(30,704)
At March 31, 2010	**10,536**	**15,271**	**4,431**	**3,082**	**1,875**	**10,953**	**24.333**	**70,481**
CARRYING VALUE								
At March 31, 2010	**43,664**	**11,591**	**1,577**	**3,180**	**10,068**	**24,234**	**–**	**94,314**
At March 31, 2009	49,084	14,528	2,126	3,787	10,306	20,628	123,997	224,456

13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The following estimated useful lives are used for the depreciation of property, plant and equipment using the straight-line method:

Buildings at the mining site	10 years
Leasehold improvements	over unexpired lease terms
Computer equipment	3 years
Furniture, fixtures and office equipment	5 – 10 years
Plant, machinery and other equipment	10 – 20 years
Motor vehicles	5 years
Aircraft and engines	12 – 20 years

14. INVESTMENT PROPERTY

	2010 **HK$'000**	2009 HK$'000
At beginning of the year	**104,046**	540,000
Addition	**–**	104,046
Decrease in fair value recognised in the consolidated income statement	**(10,689)**	(16,062)
Exchange adjustment	**921**	–
Disposal	**–**	(523,938)
At end of the year	**94,278**	104,046

During the year ended March 31, 2009, the Group disposed of its investment properties in Hong Kong for a consideration, net of transaction costs, of approximately HK$523,938,000, resulting in a fair value loss of approximately HK$16,062,000. For cash flow purposes, approximately HK$515,735,000 was received in cash while the remaining HK$8,203,000 was settled through discharging the Group from a liability in relation to the rental deposits received by the Group.

The Group's remaining investment property was revalued by reference to market evidence of transaction prices for similar properties in the same location and condition by Greater China Appraisal Ltd., an independent qualified valuer at March 31, 2010. The remaining investment property is located in Mainland China and is held under a lease with 56 years remaining at March 31, 2010.

15. INTANGIBLE ASSETS

	Software HK$'000
COST	
At April 1, 2008	424
Exchange adjustments	(92)
Additions	701
Written off	(4)
At March 31, 2009 and April 1, 2009	1,029
Additions	514
Written off	(45)
At March 31, 2010	1,498
ACCUMULATED AMORTISATION	
At April 1, 2008	44
Exchange adjustments	(46)
Charge for the year	224
Written off	(2)
At March 31, 2009 and April 1, 2009	220
Charge for the year	423
Written off	(22)
At March 31, 2010	621
CARRYING VALUE	
At March 31, 2010	877
At March 31, 2009	809

The above intangible assets have finite useful lives. These intangible assets are amortised on a straight-line basis over 3 years.

16. DEVELOPMENT IN PROGRESS

During the year ended March 31, 2009, an agreement was entered into between the Governor's Administration Office of Khovd Province of Mongolia (the ''Governor'') and MoEnCo LLC, a wholly owned subsidiary of the Company, regarding the right of use of a road granted by the Governor to MoEnCo LLC subject to certain conditions. Under the terms of the agreement, MoEnCo LLC will construct a road at its own cost from the Group's mine areas in Khushuut, western Mongolia to the Yarant border crossing with Xinjiang, PRC, with the construction permit granted to MoEnCo LLC from the Ministry of Road, Transportation and Tourism of the Mongolian government. In return, MoEnCo LLC enjoys the right, which was granted at the date of the agreement, for the unrestricted use of the road for 30 years (the ''approved period''). The road will be opened to public use subject to certain weight restrictions whereupon the Group may direct users including commercial users. The Group is also responsible for maintenance of the road during the approved period. The Group will use the road mainly for the purpose of transporting coal from its mine areas to its customers in the PRC and the road was still under construction at March 31, 2010.

17. EXPLORATION AND EVALUATION ASSETS

	Mining and Exploration Rights (Note d) HK$'000	**Others** (Note c) HK$'000	**Total** HK$'000
COST			
At April 1, 2008	12,560,873	151,355	12,712,228
Acquisition (Note a)	–	–	–
Additions	–	99,046	99,046
Exchange adjustments	(48,687)	(3,867)	(52,554)
At March 31, 2009 and April 1, 2009	12,512,186	246,534	12,758,720
Acquisition (Note b)	285,676	–	285,676
Additions	–	121,598	121,598
Exchange adjustments	23,733	–	23,733
At March 31, 2010	12,821,595	368,132	13,189,727

Notes:

(a) On May 5, 2008, the Group entered into an agreement to acquire the mining and exploration rights for 263,008 hectares in western Mongolia for coal, ferrous and non-ferrous metals resources (the "2008 Acquisition"). The agreement was concluded with Shine Ocean International Limited ("SOIL"), a company which is beneficially owned by Mr. Liu, a substantial shareholder of the Company. The rights were initially acquired for a consideration of US$1.

In addition, for both the acquisition of exploration rights for 32,000 hectares of a coal mine in Khovd Province in Mongolia on May 29, 2007 by the Group from SOIL (the "2007 Acquisition") and the 2008 Acquisition, the Group has agreed to pay SOIL, within 30 days after the exploration for the coal resources, ferrous resources and non-ferrous resources (the "Resources"), a resources fee as follows:

(i) Coal resources fees: HK$2.00 per tonne for the coal resources by way of a loan note (with a 3% per annum coupon rate and 5-year maturity) as deferred payment;

(ii) Ferrous resources fees: 0.5% of the prevailing international market prices for the relevant ferrous metals of the qualities and types by way of a loan note (with a 3% per annum coupon rate and 5-year maturity) as deferred payment; and

(iii) Non-ferrous resources fees: 0.5% of the prevailing international market prices for the relevant non-ferrous metals of the qualities and types by way of a loan note (with a 3% per annum coupon rate and 5-year maturity) as deferred payment.

The exploration of the acquired areas for the 2007 Acquisition and the 2008 Acquisition is at the sole and absolute discretion of the Group and no minimum conditions for the exploration has been set by SOIL.

As the fees payable for the Resources cannot be determined until completion of exploration, accordingly, only US$1 each for the 2007 Acquisition and the 2008 Acquisition, was recorded in exploration and evaluation assets. The fee payable will be recognised when a reliable measurement of the Resources can be obtained. At March 31, 2010, none of the conditions were fulfilled for the issuance of the loan note.

17. EXPLORATION AND EVALUATION ASSETS *(Continued)*

Notes (Continued):

(b) On July 10, 2009, the Group entered into an acquisition agreement with Lenton Capital Management Limited for the acquisition of the entire interest in Millennium Hong Kong Group Limited and its subsidiary Zvezdametrika LLC ("Z LLC"), a company incorporated in Mongolia (collectively referred to as the "Millennium Group"). The Mongolian subsidiary owns an exploration concession of around 2,986 hectares in western Mongolia for ferrous resources. The consideration was satisfied by: (1) US$10,000,000 (approximately HK$77,540,000) in cash; (2) 54,577,465 new shares of the Company at an issue price of HK$3.1, represented the market price of the Company's shares at July 27, 2009; and (3) the remaining consideration of US$5,000,000 (approximately HK$39,000,000) in cash which to be payable conditional to the issuance of a mining licence for the concession area and was included in the other payables and accruals at March 31, 2010. The total consideration for this amounted to HK$285,730,000 and the acquisition was completed on July 27, 2009. At the acquisition date, the Millennium Group was holding cash of HK$55,000 and exploration concession. The acquisition was considered as an assets acquisition and the Group identified and recognized the individual identifiable assets and liabilities being acquired and allocated the cost of the group of assets and liabilities to the individual identifiable assets and liabilities on the basis of their fair values at the date of completion. As limited exploration work has been done, the directors of the Company are of the opinion that the fair value of exploration concession acquired cannot be measured reliably, the fair value of the consideration paid, including cash consideration and cost of shares issued, determined in accordance with HKFRS 2 "Share-based Payments" were used to account for the costs of the exploration concession. In this regard, the amount represents the total consideration less fair value of cash and bank balances of the Millennium Group acquired at the completion date. The net cash outflow of the acquisition was HK$77,485,000.

On July 16, 2009, the Parliament of Mongolia enacted the Mining Prohibition Law (the "MPL") which prohibits minerals exploration and mining in areas such as headwaters of rivers and lakes, forest areas and areas adjacent to rivers and lakes (the "defined prohibited areas"). Pursuant to the MPL, the Mongolian government was supposed to define the boundaries of the relevant prohibited areas by October 16, 2009 but it had not done so by the prescribed time. It also states that any previously granted licenses that overlap the defined prohibited areas will be terminated within five months following the enactment of the law. However, the deadline stipulated in the MPL has expired but no existing licenses have been revoked under the MPL.

The MPL further states that affected license holders shall be compensated but details as to how the compensation is determined has not been specified in MPL and the Mongolian government has not yet released any further guidance on how to interpret the MPL.

Mineral Resources Authority of Mongolia (the "MRAM") has prepared a preliminary list of licences (subject to the Mongolian government's final approval) that overlap with the defined prohibited areas under the MPL. The Group's iron ore exploration concession might be affected by the MPL under the preliminary list. Z LLC, a subsidiary of the Group which owns the iron ore exploration concession, received a notice from the MRAM about the potential revocation of its exploration concession under MPL and Z LLC was requested submission of the estimated compensation for termination of licenses with supporting documents. After taking the legal advice from the Group's Mongolian legal advisers, the Group decided not to respond to the MRAM's request as the Group did not consider the MPL, though enacted, has been implemented. The management also considers that even if the licenses were revoked due to the MPL, the Mongolia government would pay a reasonable compensation to the Group. Hence, the management concluded that there is no impairment on the corresponding exploration and evaluation assets as at March 31, 2010. The enactment of the MPL represents a significant uncertainty to the Group, which might have a significant effect on the consolidated financial statements of the Group. If the Group's iron ore exploration concession was revoked due to the MPL and the Group was paid with compensation significantly less than the consideration the Group paid to acquire such concession, the Group would incur a significant impairment loss on the corresponding exploration and evaluation assets.

(c) Others represent the geological and geophysical costs, drilling and exploration expenses and labour costs directly attributable to exploration activities.

(d) Exploration and mining licences are granted for an initial period of 3 and 30 years respectively. The exploration licences can be extended for two successive periods of 3 years each and mining licences for two successive periods of 20 years each. The Group has renewed all exploration and mining licenses before the expiry date.

(e) The management considered that the determination of commercial viability is still in progress as at March 31, 2010.

18. INTERESTS IN ASSOCIATES/AMOUNTS DUE FROM (TO) ASSOCIATES

	2010 HK$'000	2009 HK$'000
Cost of associates		
– unlisted shares, at cost	**135,763**	129,454
Share of results	**(37,528)**	(5,993)
Impairment losses	**(56,636)**	(55,783)
Less: transfer to available-for-sale financial asset (Note 19)		
– cost	**(85,166)**	–
– share of results	**29,383**	–
– impairment losses	**55,783**	–
	41,599	67,678
Amounts due from associates	**206,241**	206,258
Impairment losses	**(2,587)**	(983)
	203,654	205,275
Analysis for reporting purposes:		
Non-current	**200,000**	200,000
Current	**3,654**	5,275
	203,654	205,275

The summarised financial information in respect of the Group's associates is set out below:

	2010 HK$'000	2009 HK$'000
Total assets	**342,775**	735,118
Total liabilities	**(229,007)**	(525,068)
	113,768	210,050
Group's share of net assets of associates	**41,599**	67,678
Revenue	**30,955**	41,010
Loss for the year	**(396,344)**	(8,586)
Group's share of result of associates for the year	**(31,535)**	(3,170)

18. INTERESTS IN ASSOCIATES/AMOUNTS DUE FROM (TO) ASSOCIATES

(Continued)

Details of the associates at March 31, 2010 and 2009 are as follows:

Name	Place of establishment/ incorporation	Particulars of issued/registered share capital	Interest held 2010	Interest held 2009	Principal activities
亞聯公務機有限公司	PRC	100,000,000 shares of RMB1.00 each	**43%**	43%	Provision of charter flight services and aircraft management
Upper Easy Enterprises Limited*	British Virgin Islands	5 shares of US$1.00 each	**20%**	20%	Investment holding
eGuanxi (Cayman) Limited	Cayman Islands	6,667,000 shares of US$1.00 each	**25%**	25%	Dormant
Xinjiang Kai Yu Yuan Mining Corporation Limited ("Xinjiang Kai Yu Yuan")[1*#]	PRC	RMB700,000,000	**–**	25%	Exploration and development of coal resources, iron and copper
Xinjiang Ka Yu Tong Logistics Park Company Limited[1*#] ("Xinjiang Kai Yu Tong")	PRC	RMB100,000,000	**–**	25%	Construction of a logistic park in Xinjiang, import and export service of equipment, mineral products and steel material
MoOiCo LLC ("MoOiCo")[2*]	Mongolia	US$10,000	**20%**	20%	Oil exploration
Profit Rise International Private Limited[1*]	Singapore	100 shares of S$1.00 each	**20%**	20%	Investment holding

1 *Interest indirectly held by Mongolia Resources (Hong Kong) Company Limited*

2 *Interest indirectly held by Profit Billion International Private Limited*

* *Mr. Liu, a substantial shareholder of the Company, owns the remaining shares in these associates*

\# *Associate redesignated as available-for-sale financial asset after dilution of equity interest from 25% to 19% on March 23, 2010.*

At March 31, 2009, included in the cost of investment in associates is a premium of HK$55,928,000 for the acquisition of Xinjiang Kai Yu Yuan. Xinjiang Kai Yu Yuan has entered into agreements with (1) Xinjiang Coalfield and Geology Bureau and its Team 156 and (2) China National Administration Coal Geology 129 Exploration Team (collectively referred as the "Geological Bureaus") to establish two joint ventures for the further exploration of 2 billion tonnes of coal resources. According to the agreement, the Geological Bureaus are to contribute the exploration licensed areas containing the demonstrated 2 billion tonnes of coal resources to the joint ventures. The premium is attributable to exploration costs incurred by Xinjiang Kai Yu Yuan before the acquisition. As at March 31, 2009, the Group conducted an impairment assessment on its interest in Xinjiang Kai Yu Yuan. As the exploration licensed areas had not been transferred by the Geological Bureaus, this resulted in the impairment of HK$55,783,000 being recognised in the same year the associate was acquired.

On March 23, 2010, the equity interest of the Company in Mongolia Resources (Hong Kong) Company Limited ("Mongolia Resources Hong Kong"), an investment holding company which owns a 100% beneficial interest of Xinjiang Kai Yu Yuan and Xinjiang Kai Yu Tong, was diluted from 25% to 19% due to additional share allotted to existing major shareholder. Mr Lo Lin Shing, Simon, a director of the Company had resigned as a director of Mongolia Resources Hong Kong. Significant influence over Mongolia Resources Hong Kong is considered to have been lost immediately after the equity dilution took place. The cost of investments less share of associate results and impairment losses previously made was redesignated as an available-for-sale financial asset. At the time of equity dilution, the carrying amount of this associate was zero.

18. INTERESTS IN ASSOCIATES/AMOUNTS DUE FROM (TO) ASSOCIATES

(Continued)

There is no capital commitment contracted but not provided for in respect of further capital investment in an associate as at March 31, 2010 (2009: HK$Nil).

At March 31, 2009 and 2010, the amounts due from associates included an advance of HK$200,000,000 granted to Upper Easy Enterprises Limited, of which Mr. Liu is a substantial shareholder of the Company and he owns the remaining interest in Upper Easy Enterprises Limited. The advance was made for the purpose of securing a mineral resource project and therefore classified as a non-current asset. The expected timing for securing the project has been extended to on or before September 30, 2010. The remaining balances represent shareholder's loans to MoOiCo, a company which is engaged in an oil exploration project in Mongolia. That amount is unsecured, interest free and repayable on demand.

The amount due to an associate is unsecured, interest free and repayable on demand.

19. AVAILABLE-FOR-SALE FINANCIAL ASSET

	2010 HK$'000	2009 HK$'000
Unlisted equity investment transfer from interest in associates (Note 18)	–	–
Addition (Note)	3,024	–
Less: impairment loss	(3,024)	–
	–	–

Note: On March 31, 2010, a capital contribution of HK$3,024,000 by the Group had been made in proportional to the percentage of shareholding.

20. LOAN NOTE RECEIVABLE

	2010 HK$'000	2009 HK$'000
Addition, at fair value (Note 31)	37,390	–
Add: interest income accrued	277	–
	37,667	–
Analysed for reporting purposes as:		
Non-current assets	37,667	–

Note: The loan note has a face value of HK$46 million and was issued by VVH at 4% interest per annum and matures on February 28, 2012. It represents partial consideration of the disposal of the subsidiary (see Note 10) during the year. The loan note has been fair valued upon initial recognition. The effective interest rate is 7.61% per annum. The issuer has an option to redeem the whole or any part of the loan note before maturity at its principle amount and accrued interest up to redemption date. At initial recognition and at the end of the reporting period, the directors of the Group considered that the fair value of this embedded derivative was immaterial.

21. PREPAYMENTS FOR EXPLORATION AND EVALUATION EXPENDITURE

	2010 HK$'000	2009 HK$'000
Road improvement and drilling equipment transport	**11,558**	25,284
Exploration drilling	**10,484**	28,766
	22,042	54,050

22. DEPOSITS FOR PROPERTY, PLANT AND EQUIPMENT AND OTHER LONG-TERM DEPOSITS

	2010 HK$'000	2009 HK$'000
Aircraft (Note 10)	**–**	103,714
Electricity supply at mine site in Mongolia	**48,898**	48,898
Tractors, motor vehicles and others	**14,658**	17,915
	63,556	170,527

23. HELD-FOR-TRADING INVESTMENTS

	2010 HK$'000	2009 HK$'000
Equity securities of companies listed in Hong Kong	**45,207**	28,742

24. CASH AND CASH EQUIVALENTS

	2010 HK$'000	2009 HK$'000
Bank balances and cash	**58,104**	20,285
Short-term bank deposits	**63,195**	640,604
	121,299	660,889

The weighted average effective interest rate on short-term bank deposits was 0.15% (2009: 0.52%) per annum. The maturity days of the short-term bank deposits ranged from one week to one month (2009: one week to one month). Cash at bank earns interest at rates based on daily bank deposit rates.

25. ACCOUNTS PAYABLE

The ageing analysis of accounts payable is as follows:

	2010 HK$'000	2009 HK$'000
Current to 30 days	**967**	226
31 to 60 days	**7,141**	82
61 to 90 days	**2**	–
Over 90 days	**–**	741
	8,110	1,049

26. CONVERTIBLE NOTES

On January 29, 2008, the Company issued a 3% convertible note ("Convertible Note") at a total nominal value of HK$142.5 million. The Convertible Note has a maturity period of three years from the issue date to January 28, 2011 and can be converted into 1 ordinary share of the Company at HK$0.02 each for every HK$0.285 convertible note at the holder's option at any time between the issue date and the maturity date subject to anti-dilutive adjustments. Interest of 3% per annum will be paid up until the settlement date. The Convertible Note will be redeemed at the principal amount with accrued interest at settlement date.

On April 30, 2008, the Company issued a zero coupon convertible note ("Zero Coupon Convertible Note") at a total nominal value of HK$2 billion. It has a maturity period of three years from the issue date and can be converted into 1 ordinary share of the Company at HK$0.02 each for every HK$7.3 convertible note at the holder's option subject to anti-dilutive adjustments. The Zero Coupon Convertible Note entitles the holder to convert it into ordinary shares of the Company at any time between the date of issue of the note and its maturity date on April 30, 2011 and, if it has not been converted, it will be redeemed on April 30, 2011 at par.

The holder of the Zero Coupon Convertible Note has agreed in principle to extend the maturity date of not less than 18 months from April 30, 2011 subject to re-negotiation of certain terms.

Both convertible notes contain two components, a liability and an equity element. The equity element is presented in equity as part of the "capital reserve". The effective interest rate of the liability component for the Convertible Note and Zero Coupon Convertible Note is 11.23% per annum and 14.14% per annum respectively.

The movement of the liability component of the Convertible Note and Zero Coupon Convertible Note for the year is set out below:

	2010 HK$'000	2009 HK$'000
At beginning of the year	**1,647,166**	114,880
Initial recognition	**–**	1,345,052
Interest expense (Note 7)	**202,867**	187,234
At end of the year	**1,850,033**	1,647,166

26. CONVERTIBLE NOTES *(Continued)*

Analysed for reporting purposes as:

	2010 HK$'000	2009 HK$'000
Current liabilities	**140,232**	–
Non-current liabilities	**1,709,801**	1,647,166
At end of the year	**1,850,033**	1,647,166

27. LOAN NOTE

Under the terms of the loan note, the loan note with a principal amount of HK$787,500,000 is unsecured, interest bearing at 5% per annum and has a 3-year maturity period but can be repaid before maturity at the discretion of the Company at its principal amount and accrued interest up to the redemption date. The loan note was issued as part of the consideration to acquire mining and exploration rights and was fair valued at initial recognition with an effective interest rate of 10.43% per annum.

The Company early redeemed part of the loan note with a principal amount of HK$687,500,000 for better cash flow management and incurred an early redemption loss of HK$100,371,000 during the year ended March 31, 2009. Interest on the loan note is payable on the maturity date on January 28, 2011 or upon repayment, whichever is earlier.

28. DEFERRED INCOME TAX LIABILITIES

The components of the deferred income tax account recognised in the consolidated statement of financial position (prior to offsetting of balances within the same tax jurisdiction) and the movements during the year are as follows:

	Investment properties HK$'000
At April 1, 2008	72,413
Credited to the income statement (Note 9)	(72,413)
At March 31, 2009 and April 1, 2009	–
Charged to the income statement (Note 9)	–
At March 31, 2010	–

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. At March 31, 2010, estimated tax losses of the Group not utilised were amounted to HK$87,545,000 (2009: HK$61,028,000). No deferred tax asset has been recognised for these tax losses as it is uncertain as to whether the relevant group companies will have sufficient future taxable profits to utilise these tax losses and whether the amount of tax loss is agreed by the relevant tax authority. Except for tax losses of HK$40,572,000 (2009: HK$14,055,000) expiring within 1 to 4 years, the remaining balances have no expiry date.

29. SHARE CAPITAL

Authorised and issued share capital

	2010 HK$'000	2009 HK$'000
Authorised:		
15,000,000,000 ordinary shares of HK$0.02 each	**300,000**	300,000

	Number of ordinary shares at HK$0.02 each	**Amount** HK$'000
Issued and fully paid:		
At April 1, 2008	6,047,262,363	120,945
Issue of shares upon		
– Exercise of share options (Note)	958,000	19
At March 31, 2009 and April 1, 2009	6,048,220,363	120,964
Issue of shares		
– Acquisition of an exploration right (Note 17b)	54,577,465	1,092
– Exercise of share options (Note)	100,000	2
At March 31, 2010	**6,102,897,828**	**122,058**

Note: During the year, share options to subscribe for 100,000 (2009: 958,000) shares were exercised, of which HK$2,000 (2009: HK$19,000) was credited to share capital and the balance of HK$311,000 (2009: HK$5,987,000) was credited to the share premium account.

30. SHARE-BASED PAYMENT COMPENSATION

Equity-settled share option scheme

Under the share option schemes adopted by the Company on September 22, 2000 (the "Terminated Option Scheme") and August 28, 2002 (the "Existing Option Scheme"), options were granted to certain directors and employees of the Group entitling them to subscribe for shares of the Company. The Terminated Option Scheme was terminated on August 28, 2002 upon the adoption of the Existing Option Scheme.

Movements of share options outstanding and their weighted average exercise prices are as follows:

	2010		2009	
	Weighted average exercise price per share HK$	**Number of share options**	Weighted average exercise price per share HK$	Number of share options
Exercisable at beginning of the year	**3.9147**	**10,090,870**	6.1049	4,799,270
Granted	**3.3998**	**4,500,000**	2.4102	6,375,000
Exercised	**2.1340**	**(100,000)**	4.5828	(958,000)
Lapsed/cancelled	**6.4859**	**(3,840,200)**	6.1420	(125,400)
Exercisable at end of the year	**2.7871**	**10,650,670**	3.9147	10,090,870

Options exercised during the year ended March 31, 2010 resulted in 100,000 ordinary shares (2009: 958,000) being issued at the weighted average exercise price of HK$2.1340 (2009: HK$4.5828) each. The related weighted average share price at the time of exercise was HK$4.070 (2009: HK$8.269) per share.

The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Share options outstanding at the end of the year have the following exercise period and exercise price:

			Number of shares subject to options	
Date of grant	**Exercise price** HK$	**Exercise period**	**2010**	**2009**
1-3-2005	0.1695 (Note 1)	1-3-2005 to 28-2-2012	**670**	670
15-2-2006	0.1636	15-2-2006 to 16-4-2009	**–**	200
23-4-2007	4.62	23-4-2007 to 1-4-2009	**–**	1,150,000
26-3-2008	7.284 (Note 2)	26-3-2008 to 25-3-2010	**–**	2,690,000
18-8-2008	6.142	18-8-2008 to 17-8-2010	**250,000**	250,000
2-2-2009	2.134	2-2-2009 to 1-2-2012	**2,900,000**	3,000,000
6-2-2009	2.22	6-2-2009 to 5-2-2011	**3,000,000**	3,000,000
1-4-2009	2.358	1-4-2009 to 31-3-2011	**500,000**	–
13-8-2009	2.890	13-8-2009 to 12-8-2011	**2,000,000**	–
13-11-2009	4.170	13-11-2009 to 12-11-2011	**2,000,000**	–
			10,650,670	10,090,870

Notes:

(1) The exercise price was adjusted from HK$0.1933 to HK$0.1695 pursuant to the rights issue of the Company during the year ended March 31, 2006.

(2) Options were lapsed/cancelled during the year.

30. SHARE-BASED PAYMENT COMPENSATION *(Continued)*

The fair values of options granted determined using the Binomial Valuation Model were as follow:

	August 18, 2008	February 2, 2009	February 6, 2009	April 1, 2009	August, 13 2009	November, 13 2009
Option value (at grant date)	HK$540,218	HK$2,994,609	HK$3,037,170	HK$490,245	HK$2,543,300	HK$3,626,140
Fair value per option (at grant date)	HK$1.441	HK$0.998	HK$1.012	HK$0.980	HK$1.272	HK$1.813
Significant inputs into the valuation model:						
Exercise price at grant date	HK$6.142	HK$2.134	HK$2.22	HK$2.358	HK$2.89	HK$4.17
Share price at grant date	HK$3.5	HK$2.09	HK$2.22	HK$2.24	HK$2.89	HK$4.17
Expected volatility (note)	136.02%	137.58%	132.78%	119.13%	116.85%	112.74%
Risk-free interest rate	2.119%	1.053%	0.526%	0.730%	0.504%	0.356%
Expected life of options	2 years	3 years	2 years	2 years	2 years	2 years
Expected dividend yield	0%	0%	0%	0%	0%	0%

Note: The expected volatility is measured at the standard deviation of the expected share price return and is based on statistical analysis of daily share prices over the last 6 months before the respective dates of grant. The expected life used in the model has been estimated, based on management's best estimate, for the effects of non transferability, exercise restrictions and behaviour considerations.

The Group recognised the total expense of HK$6,660,000 for the year ended March 31, 2010 (2009: HK$6,572,000) in relation to share options granted by the Company.

31. DISPOSAL OF A SUBSIDIARY

On March 1, 2010, the Group disposed of its entire interest in Glory Key Investments Limited which provided charter flight services.

The net assets of Glory Key at the date of disposal were as follows:

	HK$'000
NET ASSETS DISPOSED OF	
Property, plant and equipment	92,190
Trade receivables	773
Other receivables	800
Trade and other payables	(2,879)
	90,884
Satisfied by:	
Cash	48,694
Loan note, at fair value (Note 20)	37,390
	86,084
Loss on disposal of a subsidiary	
Consideration received and receivable	86,084
Net assets disposed of	(90,884)
	(4,800)
Net cash inflow on disposal of a subsidiary	48,694

The subsidiary disposed of during the year contributed to the Group's revenue and losses approximately HK$2,392,000 and HK$39,842,000 respectively.

No tax charge or credit arose from the loss on the disposal.

32. COMMITMENTS

In addition to those disclosed elsewhere in the consolidated financial statements, the Group has the following commitments:

(a) Commitments under operating leases

At March 31, 2010, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2010 HK$'000	2009 HK$'000
Not later than one year	15,186	15,853
Later than one year and not later than five years	3,633	12,926
	18,819	28,779

Operating leases related to offices and staff quarters with lease terms of between 1 to 5 years (2009: 1 to 5 years).

(b) Capital commitment

At March 31, 2010, the Group had capital commitments contracted for but not provided for amounting to approximately HK$179,837,000 (2009: HK$671,209,000). These commitments are for the following projects:

	2010 HK$'000	2009 HK$'000
Acquisition of an aircraft	–	192,153
Road construction (Note 16)	53,861	289,629
Road improvement and drilling equipment transport (Note 17)	34,455	51,415
Exploration drilling (Note 17)	50,387	52,296
Mine design	454	41,921
Other exploration related commitments	36,737	43,795
Purchase of property, plant and equipment	3,516	–
Purchase of intangible assets	427	–
	179,837	671,209

33. FINANCIAL INFORMATION OF THE COMPANY

	2010 HK$'000	2009 HK$'000
Total assets	**15,369,630**	15,212,577
Total liabilities	**(2,449,066)**	(2,008,624)
Net assets	**12,920,564**	13,203,953
Financed by:		
Equity		
Capital and reserves attributable to the Company's owners		
Share capital	**122,058**	120,964
Reserves	**12,798,506**	13,082,989
	12,920,564	13,203,953

Reserves

	Share premium HK$'000	**Contributed surplus** HK$'000 (Note)	**Capital reserve** HK$'000	**Share options reserve** HK$'000	**Accumulated losses** HK$'000	**Total** HK$'000
Balance at and April 1, 2008	9,132,405	199,594	3,529,218	8,225	(85,863)	12,783,579
Loss for the year	–	–	–	–	(366,481)	(366,481)
Recognition of equity-settled share based payments	–	–	–	6,572	–	6,572
Convertible note – equity component	–	–	654,948	–	–	654,948
Issue of shares – Exercise of share options	5,987	–	–	(1,616)	–	4,371
Balance at March 31, 2009 and April 1, 2009	9,138,392	199,594	4,184,166	13,181	(452,344)	13,082,989
Loss for the year	–	–	–	–	(459,454)	(459,454)
Recognition of equity-settled share based payments	–	–	–	6,660	–	6,660
Issue of shares – Acquisition of an exploration right	168,100	–	–	–	–	168,100
– Exercise of share options	311	–	–	(100)	–	211
Balance at March 31, 2010	9,306,803	199,594	4,184,166	19,741	(911,798)	12,798,506

Note: Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to shareholders, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of the contributed surplus if (i) it is, or would after the payment be, unable to pay its liabilities as they become due; or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

34. RELATED PARTY TRANSACTIONS

In addition to those disclosed elsewhere in the consolidated financial statements, significant related party transactions are as follows:

(a) Flight services provided to

	2010 HK$'000	2009 HK$'000
Associates	**1,104**	672

(b) Services rendered by

	2010 HK$'000	2009 HK$'000
Associates	**11,606**	19,397

(c) Loan to associates

	2010 HK$'000	2009 HK$'000
Granted during the year	**2,045**	6,258

(d) Key management compensation

The remuneration of directors and other members of key management during the year was as follows:

	2010 HK$'000	2009 HK$'000
Basic salaries, other allowances and benefits in kind	**19,286**	19,750
Share based payments	**6,169**	6,032
Contributions to MPF Scheme	**53**	48
	25,508	25,830

35. PARTICLARS OF PRINCIPAL SUBSIDIARIES

Details of the Group's principal subsidiaries at March 31, 2010 and March 31, 2009:

Name	Place of incorporation	Particulars of issued share capital	Effective interest held 2010	Effective interest held 2009	Principal activities
Business Aviation Asia Limited	Hong Kong	1 share of HK$1.00	**100%**	100%	Investment holding
Cyber Network Technology Limited*	British Virgin Islands	1 share of US$1.00	**100%**	100%	Investment holding
Gamerian Limited*	British Virgin Islands	1 share of US$1.00	**100%**	100%	Investment holding
Glory Key Investments Limited	British Virgin Islands	1 share of US$1.00	**Nil#**	100%	Investment holding
Mongolia Energy Corporation (Greater China) Ltd	Hong Kong	2 shares of HK$1.00 each	**100%**	100%	Management services
Virtue Team Investments Limited	Hong Kong	2 shares of HK$1.00 each	**100%**	100%	Management services
Mongolia Energy Corporation Services Limited	Hong Kong	2 shares of HK$1.00 each	**100%**	100%	Provision of secretarial and nominee services
MoEnCo LLC	Mongolia	1,010,000 shares of US$1.00 each	**100%**	100%	Minerals exploration and mining activities

* *Subsidiaries directly held by the Company.*

\# *Subsidiary was disposed during the year*

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities at the end of the year.

36. RETIREMENT BENEFITS SCHEME

The MPF Scheme is available to all employees aged 18 to 65 and with at least 59 days of service under employment in Hong Kong. Contributions from employers and employees are 5% each of the employee's relevant income. The maximum relevant income for contribution purposes is HK$20,000 per month. The employees are entitled to the full benefit of the Group's contributions and accrued returns irrespective of their length of service with the Group but the benefits are required by law to be presented until the retirement age of 65.

37. SUBSEQUENT EVENT

The Company entered into a subscription agreement on April 27, 2010 with Golden Infinity Co., Ltd. ("Golden Infinity") pursuant to which Golden Infinity has conditionally agreed to subscribe for 3.5% unsecured convertible note in the principal amount of HK$300 million (the "Subscription"). The convertible note has maturity period of three years from the issue date and can be converted into 1 ordinary shares of the Company at HK$0.02 each for every HK$4 convertible note (subject to adjustment). Golden Infinity is wholly and beneficially owned by Mr Lo. The completion of Subscription is subject to fulfillment of certain conditions and shareholders' approval. The Subscription has not been completed as at the date when these consolidated financial statements are approved by the directors.

Summary of Results, Assets and Liabilities

	Results of the Group for the year ended March 31				
	2006	2007	2008	2009	**2010**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Turnover					
Continuing operations	24,052	39,773	29,952	9,076	**–**
Discontinued operation	14,548	–	–	2,005	**2,392**
Profit(loss) attributable to					
Shareholders	(1,383)	11,849	74,400	(438,387)	**(317,405)**
Earnings(loss) per share (HK cents)					
– Basic	(0.25)	0.62	2.32	(7.25)	**(5.22)**
– Diluted	(0.02)	0.61	2.31	(7.25)	**(5.22)**

	Assets and liabilities of the Group at March 31				
	2006	2007	2008	2009	**2010**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Total assets	818,114	843,079	14,218,207	15,047,269	**15,169,958**
Less: Total liabilities	(390,988)	(201,685)	(1,123,085)	(1,787,976)	**(2,020,980)**
Total net assets	427,126	641,394	13,095,122	13,259,293	**13,148,978**

Corporate Information

DIRECTORS

Executive Directors
Mr. Lo Lin Shing, Simon *(Chairman)*
Mr. Liu Zhuo Wei
Ms. Yvette Ong

Non-Executive Director
Mr. To Hin Tsun, Gerald

Independent Non-Executive Directors
Mr. Peter Pun *OBE, JP*
Mr. Tsui Hing Chuen, William *JP*
Mr. Lau Wai Piu

COMPANY SECRETARY

Mr. Tang Chi Kei

INDEPENDENT AUDITOR

Deloitte Touche Tohmatsu

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited
Industrial and Commercial Bank of China (Asia) Limited
Public Bank (Hong Kong) Limited

PRINCIPAL SHARE REGISTRAR

Butterfield Fulcrum Group (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM08
Bermuda

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